HIGHER SECONDARY BUSINESS ORGANISATION

PROF. B. K. BISWAS

ORIENTAL BOOK COMPANY

HIGHER SECONDARY BUSINESS ORGANISATION

Intended for Higher Secondary Courses

[Classes XI & XII]

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PREFACE

My endeavour to offer a comprehensive text book on Business Organisation to Higher Secondary students has at last succeeded owing to the strenuous effort of Oriental Book Company which has undertaken the responsibility of publishing this book. I have attempted sincerely to clarify all topics of the syllabus of Business Organisation in clear and simple language. My long experience as a teacher of this subject has convinced me that students find it difficult to have a clear conception of the manifold topics included in the syllabus for Business Organisation. They very often supply irrelevant answers on account of their confused idea. Sincere efforts have been made in this book to avoid ambiguity and clarity has been maintaned all through. Simplicity and lucid explanation of several facets of Business Organisation may help students to understand the subject-matter clearly and answer in their own words instead of resorting to unintelligent cramming. For this purpose again three types of questions, namely, essay type, short answer type and objective type have been appended at the end of each chapter along with hints of answers.

I feel it necessary to acknowledge here my indebtedness to the standard works on the different aspects of this subject from which ideas have been drawn profusely.

I am also grateful to my colleagues for their encouragement and valuable suggestions.

The author feels that his attempt will be amply rewarded if this work is found to be useful to the Higher Secondary students.

Calcutta, the 2nd August, 1982 — B. K. Biswas

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PART I

[FIRST PAPER]

CHAPTER I

DEFINITION AND TERMINOLOGY

What is business ?

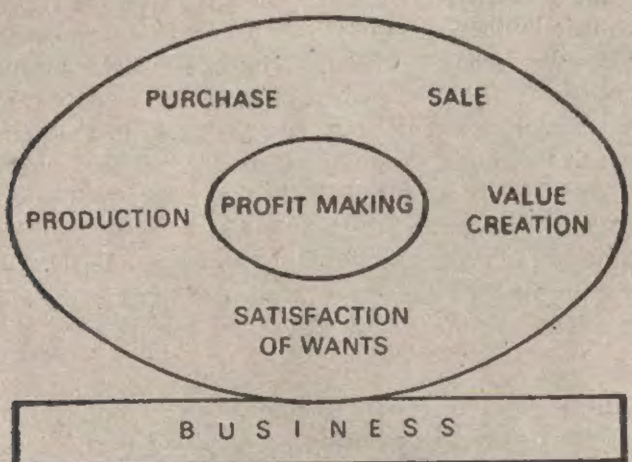
The word 'business' has come from 'busyness' which means one is busy with one's normal avocation. But business has a different significance. It is an economic activity.

Different authors and management experts have defined business differently. Some are of opinion that recurring sales and procurement for sales constitute the business. They opine that sale signifies business. If a farmer produces crops for his own consumption, it is not a business activity. But if he produces crops for selling them in a market, it is business. In other words, recurring exchange of goods and services for money is known as business. Sales mean, we have noted, recurring sales. Isolated or incidental sales do not make business. A commodity is purchased and then sold in the market. The money which the businessman gets, he uses it for purchasing the commodity and then again sells it in the market. These recurring sales constitute business. For the purpose of sales, commodities are to be procured. These are acquired in two ways, namely, by purchasing them from the producers or by producing them in the factory. For recurring sales there must necessarily be recurring purchases or production.

L. H. Haney, an eminent author, defines business as **human activity directed towards producing or acquiring wealth through buying and selling of goods.** Management expert like **P. F. Drucker** defines it as **any organisation that fulfils itself through marketing a product or service is a business. Any organisation in which marketing is either absent or incidental is not a business,**[2] **According to Lyndall Urwick** the famous British management thinker, **business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are able and willing to pay for.**[3]

1. Business Organisation and Combination—L. H. Haney.
2. The Practice of Management—P. F. Drucker.
3. Hand book of Administration—Lyndall Urwick.

Still others are of opinion that recurring purchases, sales and production of commodities or services **with the intention to make profit** are business activities. They point out that a businessman produces or purchases goods or services and sells them in the market for the purpose of making profit. In other words, every business transaction is effected with an intention to make profit. If any transaction is made without any motive for making profit, it is not a business transaction. Suppose, A buys a building for his own living. Later when he finds it unsuitable for his living, he sells it out. This is not business—as the building has not been sold for making profit. On the other hand, if he goes on buying and selling buildings again and again for the purpose of making profit, this is business. Nowadays, profit does not mean maximum profit. For, it is very difficult to find out the maximum profit of a going concern. A businessman now satisfies himself with a reasonable profit for maintaining the standard of living he is accustomed to.



Unlike private undertaking, a public sector undertaking is established not for making profit but for realising certain national objectives. It does not mean that profit is not made at all in the state undertakings. Profit making is its secondary objective. Profit of a state undertaking is not enjoyed by individuals. It is deposited with state exchequer. That is why, many authors hold the view that satisfaction of varied wants of man in the society through the creation of value is business activity. Man has various wants. He wants food, shelter, clothes, amusement, medical aid etc. Businessman is relentlessly creating values by producing, buying and selling goods and

services for the purpose of the satisfaction of human wants. They have pointed out the functional definition of business. According to them business and business enterprises do not convey the same sense. Business enterprises are engaged in business. And business means **any activity that is directed to create values for removing wants of man in society through recurring exchange.**

Business and Profession

Profession is an occupation which renders personal and specialised services to individuals for dealing with their problems. Lawyer, Medical Practitioner, Chartered Accountant, Tax Consultant, Management Consultant, Engineer etc. are professionals who render personal services to patients and clients. They render services either in indiviual capacity or by constituting firms like Solicitors firm, Nursing Home, Audit Firm, Consultancy Firm etc. Profession is not business for various reasons given below—

(a) Professionals are highly skilled persons who render personal and expert services to their clients for solving their problems. They acquire skill by formal education and experience. But businessman renders services of general nature by creating use-value of the goods and services by production and selling them to the consumers. Though they are skillful, they do not require formal education.

(b) Professional earns a living by accepting fee in exchange for his service, whereas a businessman makes profit by selling his product or service in the market.

(c) Professionals are required to enroll membership with their respective institutes. A chartered Accountant is an associate member of the Institute of Chartered Accountants, a doctor is a member of the Medical Association etc. A businessman is not required to be a member of any institute. He may, however, offer himself to be a member of any Trade Association.

(d) In the case of profession, advertisement is not necessary. for the professionals render confidential personal services to their clients. They do not sell out their services to the general consumers. But advertisement is a must to a business. It cannot sell out commodities without advertising for the products.

(e) Professional may discriminate between clients and accept varying rates of fee from different clients. A businessman cannot discriminate between customers in the same market though a monopolist may apply discrimination and secure different prices for his product in the different markets.

Basic Common Features of Business

Business is an economic activity. It creates values through recurring exchange for the satisfaction of human wants. Every business enterprise is engaged in this pursuit. That is why, certain common features are found in every type of business. Whatever may be the form or type of business, that is, whether it is orgainsed on a large scale or small scale or whatever commodities or services it deals in, the following features are found in every business --

(1) **Recurring Exchange**---Recurring sales constitute business. If a commodity is purchased or produced for sale it is a business activity. If any one produces or purchases for his own consumption, it is not business activity. If a farmer produces crops for his own consumption, it is not business. But if he produces the same for selling in the market with an intention to make profit, it is business. Sales mean recurring sales. Selling operation is to be effected again and again. Isolated or incidental sales do not mean business. Suppose, A buys a basket of mangoes in the Sealdah market and sells it in the Kolay market. He does not pursue the same. It is not business. But if he uses the capital he gets back after selling the mangoes in the Kolay market in buying and selling mangoes or any other stuff and in this way goes on buying and selling any commodity he does business.

(2) **Creation of Value or Utility**---A commodity is to be procured if it is to be sold in the market. It is acquired in two ways, namely, by purchasing it from the producer or by producing it. Whatever may be the sources of procurement of goods, in the process of acquiring and distributing goods he creates certain utilities. These are Form, Place, Time and Ownership utilities. By giving shape to various resources procured from the nature, a businessman creates **Form Utility**.. For example, he creates form utility by making chairs, tables, almirahs etc. out of the timber he collects from the forest. A trader creates **Place Utility** by transporting goods from the places of production to the distributing centres. By transporting steel produced at Jamshedpur to Calcutta, he creates place utility. All commodities are not produced and demanded throughout the year. Rice is produced only a few months a year. Business man keeps the rice in a warehouse to distribute it whenever it is in demand. In this way, by distributing the goods at proper time, he creates **Time Utility.** Lastly, unless the ownership or title of the goods is trasferred to the buyer,

he cannot enjoy the utility. For example, A can enjoy utility from any goods if B. transfers the ownership by selling them to A. By transferring ownership of goods a tradesman creates **Ownership Utility.**

(3) **Satisfaction of Wants of Man in Society**— A businessman satisfies varied wants of man in society by producing and distributing goods and services. Man has various physiological and mental needs. Man acquires his necessaries like food, cloth etc. from businessman. In this way, men in the society satisfy their wants by acquiring goods and services from businessmen. Therefore, it reveals that in the exchange of commodities both buyer and seller are benefited. Buyer gets the utility and the seller makes profit.

(4) **Capital**—Whatever may be the type or size of the business, capital is necessary. It is required for production, buying and selling of commodities. In economics capital means produced means of production. But in business capital signifies money capital with which commodities are procured for sale. Business requires two types of capital, namely, Fixed Capital and Working Capital. Fixed capital is required for acquiring fixed assets like land and building, plant and machinery etc. and working capital is necessary for meeting day to day expenditures of the business. Capital is provided by the sole proprietor in sole trading business, by partners in partnership organisation and by shareholders in a joint stock company. It is provided by the government in state enterprises.

(5) **Entrepreneur**—Whatever may be the form or type of business it must have an entrepreneur or entrepreneurs. He starts the business and arranges for its management. Business proposition is given shape by him and he may also provide initial capital. In other words, he makes elaborate arrangement for the promotion of the business. That is why, in all business ventures, whether a small retail shop or a big steel plant entrepreneur is necessary. In private organisation, business initiative is provided by individuals, namely, sole-proprietor, partners or shareholders. In state enterprises goverment is the entrepreneur. Government has taken responsibility for the development of various types of industries in many countries, at present.

(6) **Organisation**—Every business requires to build up its organisation. Various factors like land, labour, capital are to be pro-

cured for production of commodities. Moreover, they are to be combined in a definite proportion. Besides, the finished goods are to be sold in the market. It is not physically or mentally possible for a businessman to do all these works by himself. He allocates tasks to different individuals and co-ordinates them. Organisation means division of activities among different individuals and integration of them. It puts the different organs of the enterprise into working order.

(7) **Forecasting**—A businessman manufactures products long before selling them in the market. Moreover, production is now a round about process and naturally it takes much time. This system of production necessitates a businessman to study carefully the future trends of the demand of his products, changing tastes and fashions, market prices, cost of raw materials etc. Forecasting signifies the study of the future trend of the business and arrangement of the different factors accordingly.

(8) **Risks and Uncertainties**—Forecasting brings in risks and uncertainties. If a businessman correctly studies the future trend risks are minimised to a great extent. On the other hand, if his study is proved wrong he must face uncertain conditions. Risks in the business may arise on account of changing market conditions, sudden changes in market prices, loss of property, unfavourable fluctuations in foreign exchange rate, non-availability of transport etc.

(9) **Profit Making**—Profit is an important feature of a business. A man enters into business for earning something and this something is profit. If an enterprise does not make profit, it is not a business enterprise. A businessman takes enormous risks, provides capital and works hard for the success of his business. As against these, he gets profit as his prize or remuneration. Profit is the surplus of income over expenditure. Though profit motive is the prime motive of the business venture in the private sector, it is not so in the case of business undertaking in the public sector. A public undertaking is established not for making profit but for realising certain basic objectives for which the particular enterprise has been set up It does not mean, of course, that profit is not made in the public venture. But profit is the secondary motive and is regarded as the yard-stick for measuring the managerial efficiency.

(10) **Public Purpose**—In modern world the concept of welfare state has been developed. Socio-economic ideas have already been changed. Satisfaction of individual interest does not bring in maximum welfare. Social interest must also be looked into. Businessman must, therefore, fulfill certain social obligations. He must not only look to his own interest but also cater to the needs of his customers. He must, therefore, produce and distribute those goods and services which are needed by them and can satisfy their tastes and fashions.

(11) **Service Motive**—Though profit making is an important objective of business, it should not be the only objective of business. In other words, 'how to make profit' must not be the only purpose of the business. If a businessman thinks that profit making is the only purpose, he will be forced to close down his business. Therefore, he must not satisfy his own interest only, he must also satisfy the needs and aspirations of his customers. He must satisfy the prevailing tastes and fashions. Moreover, a businessman can make profit only when the varying tastes and needs of his customers are satisfied. Service to the customers should, therefore, be the important objective of the business.

Local, National and International Business

Business is classified into three types according to the extension of its activities, namely, Local, National and International business. **When business activities are restricted to a particular village or a town or the province or state of a country, it is known as Local business.** For example, activities of local business in India remain restricted to a village or a city (Calcutta or Bombay) or a state (West Bengal or Maharasthra). In the rural areas milkman sells milk, fisherman catches fish from ponds, tanks and rivers and sells them in the local village market ; in the urban areas small retail shops sell different commodities of daily use—all these are the examples of local business. Dealing in perishable commodities the demand of which is restricted to a local area takes the form of local business.

Features of local business are—(1) Demand of the commodities is confined to a local place ; (2) it is organised on a small scale ; (3) a smaller amount of capital is invested ; (4) family is normally the industrial unit ; (5) generally it takes the form of a retail business.

On the other hand, **the business which is carried on within the political boundary of a country is known as National business.** If a business is done within India, it becomes an example of national business. Business which extends from one state of India to another is national business. When a business enterprise of West Bengal sells its commodities to Bihar, Orissa, Assam and other states of India, it becomes national business. Jute goods produced in West Bengal are sold in other states; raw cotton and cotton fabrics produced in Maharasthra are sold throughout India. All these are national business.

Features of National business—(1) It is organised on medium or on large scale; (2) the commodity which it deals in is demanded all over the country; (3) a large amount of capital is invested; (4) generally, it is established as a partnership firm or a company or a co-operative association and (5) it sells commodities on wholesale basis.

Indian Oil Corporation, Hindusthan Steel, Bata Shoe Co., Khaira (Amul) Co-operative Milk Society, Life Insurance Corporation, Jessop Co. Ltd., etc. are the examples of national business.

When business is extended outside the political boundary of a country, it is called International business. In other words, trade between countries is known as international business. India exports jute goods and tea to different countries of the world and imports machinery, engineering goods etc. Similarly, the United Kingdom imports raw materials from India, Pakistan and Africa. It exports machinery and industrial goods to all these countries. These exports and imports constitute international business.

Features—(1) The commodities dealt in by the international business are demanded in different countries of the world; (2) it satisfies the wants for various commodities of many countries of the world; (3) it sells commodities only on wholesale basis; (4) production and marketing centres are established either in a country or different countries of the world. For example, jute goods produced in India are supplied to many countries of the world. Production and marketing centres of a Multinational Corporation are established in various countries; (5) it is always organised on a large scale and a greater amount of capital is invested.

Distinction among Local, National and International business.

Local	*National*	*International*
1. It is restricted to a village or a city or a province or a state.	1. It is confined within the political boundary of a country.	1. It is extended to the different countries of the world.
2. Demand of the commodity is restricted to a local area.	2. Commodity is demanded throughout the country.	2. Commodity is demanded in many countries of the world.
3. It satisfies wants of a local area.	3. It satisfies the wants of the entire country.	3. It satisfies the wants of various countries for various commodities.
4. It takes the form of retail business.	4. Normally it does wholesale business.	4. It is always a wholesale business.
5. Its production and marketing centres are established in a local area.	5. Its production and buying centres may be established in a particular area or different places within a country. But its selling centres are established throughout the country.	5. Its production centre may be established in a particular country or different countries of the world. But its selling extends to many countries of the world.
6. It is organised on a small scale.	6. It is organised on a medium or large scale.	6. It is always organised on a large scale.
7. A smaller amount of capital is invested.	7. It invests not very large or a large amount of capital.	7. A large amount of capital is invested.
8. It may be a sole-proprietorship or a family business.	8. Normally it is established as a partnership or a company or a co-operative association.	8. It is established as a company or a co-operative association.
9. Payments can be made by home currency.	9. Payments are made by home currency.	9. Payments are very often made by foreign currency.
10. Customs formalities are not required to be observed.	10. Customs formalities are not required to be complied with.	10. Customs formalities are required to be observed.

Interdependence and co-operation through Business

Development of trade, industry and commerce increases interdependence and co-operation among men in the society. Businessmen bring in prosperity in the country by developing trade, industry and commerce depending on and co-operating with one another. In other words, it is impossible, at present, to develop trade, industry and commerce without interdependence and co-operation among men.

In the prehistoric period when there was no trade and commerce, interdependence and co-operation did not exist at all. Man procured his own foods by collecting fruits and berries from the forest and hunting animals. There was interdependence for self-defence only for prehistoric men lived in groups. Discovery of agriculture brought about a great change in human living. Man gave up his nomadic life. He settled down and began to live in a particular plot of land He began to live on farming and hunting. At this stage barter system was introduced. Barter system brought in interdependence and co-operation among tribal groups. The tribal groups which lived on fertile lands could produce crops. They exchanged crops for animals But the groups which lived on infertile land could rear animals and so they exchanged animals for crops. With the dawning of civilisations cities and towns were established. Industrial goods began to be produced in cities and towns. Farmers produced crops in villages and artisans began to manufacture various industrial goods in cities and towns. Thus interdependence and co-operation started between village farmers and city artisans.

Interdependence and co-operation has been increased to a great extent in the modern complex economic situation. Different factors of production are to the procured for industrial production. Unless these factors are obtained from different suppliers, industrial production cannot be started. Let us cite as an example the jute industry of West Bengal. Jute mills depend on jute growers for the supply of raw jute. Both skilled and unskilled workers are necessary for production of jute goods. So these mills depend on the working class of the society. They need machinery. For this they rely on the suppliers of textile machinery. Moreover, they depend on banks and investors for securing money-capital. Besides, they need co-operation from middlemen for the sale of their jute goods in the market. On the other hand, jutegrowers, working class, machinery suppliers, banks and investors and middlemen earn their living by supplying goods and services to the jute mills. Therefore, interdependence and

co-operation has been increasing with the development of trade, industry and commerce. In other words, industrial development can only be made with the increasing interdependence and co-operation among men in the society.

International trade and commerce brings in interdependence and co-operation among different countries of the world. International trade stands on specialisation. It means that a country specialises in the production of those goods and services for which it has specific advantages. In other words, it can produce those goods at a low cost. It exports those goods and imports other goods from the foreign countries. India can produce jute and tea at a low cost for it has certain specific physical and economic advantages for the production of jute and tea. But it cannot produce high speed steel at a low cost. So India exports jute and tea to the U.S.A and the U.K. and imports high speed steel from these countries. These exports and imports have been increasing interdependence among these countries In this way international trade and commerce has been flourishing international interdependence.

International co-operation has also been increasing as a result of export and import business. Developed countries are now helping developing countries in their efforts to expedite industrial development by supplying capital goods and technical know-how. India is now importing capital goods from the U.S.A. and the U.S.S.R. for quickening industrial development.

Classification of Business Activities

Business activities can broadly be classified into two types—(a) Industry and (b) Commerce.

Industry—It is connected with the production or manufacturing of goods. The main function of the industry is to produce raw-materials and process them into finished products. It, therefore, creates shape utilities by moulding raw-materials into various types of finished products. These manufactured commodities are sold either as producers goods or as consumers goods. Industry may be of three different types—

(a) **Genetic Industry**—This industry is involved in plant and animal breeding. Its main function is to produce seedlings and breed animals for their use for further production. Plant nursery, Poultry, Fish hatchery, Cattle breeding etc. are examples of this industry.

(b) **Extractive Industry**—Products are extracted from nature by

these industries. These industries supply natural resources, and these are again converted into many useful things by manufacturing industries. Fisheries, agricultural operations, lumbering, mining operations are examples of these industries.

(c) **Constructive Industry**—Construction of buildings, roads bridges, dams etc. are included within these industries. Engineering, Architectural and Contracting firms are involved in these industries.

(d) **Manufacturing Industry**—These industries process raw-materials or semi-finished products into finished products. They create shape or form utilities by moulding raw materials into various types of finished products. These industries supply various necessary things which we use everyday. Steel, Cotton Textiles, Petroleum, Cement, Paper etc. are the examples of manufacturing industry. Manufacturing industry may again be classified into—

(1) **Analytical Industry**—The main function of this industry is to analyse a particular raw material and produce various products out of it. Petroleum refining industry is an important example of this type of industry where mineral oil is refined and several products like gasoline, kerosine, lubricating oil etc. are produced.

(2) **Synthetical Industry**—It mixes together several raw materials to produce a particular finished product. Steel, Cement, Chemical, etc. are important examples. In Steel industry different materials like iron ore, limestone, dolomite, manganese etc. are mixed together to produce finished steel.

(3) **Assembling Industry**—Important function of this industry is to assemble various finished parts and produce a complete finished product. Automobile, locomotive etc. are the examples of this industry.

(4) **Integrated Industry**—This industry combines various operations, namely, manufacturing of component parts and assembling of these parts and in this way produces complete finished products.

(5) **Processing Industry**—It processes raw-materials into finished products through several stages. Cotton and jute textiles are examples of this industry. Raw cotton is used for producing yarns and then these are woven into cloths. Similarly, raw jute is processed into yarns and then jute fabrics.

Commerce—In business apart from manufacturing there are other important functions, namely, purchasing and selling. Commerce relates to purchase and sale of goods and services. Certain other activities are also required for efficient performance of purchase and sales functions. These activities are warehousing, insuring, banking,

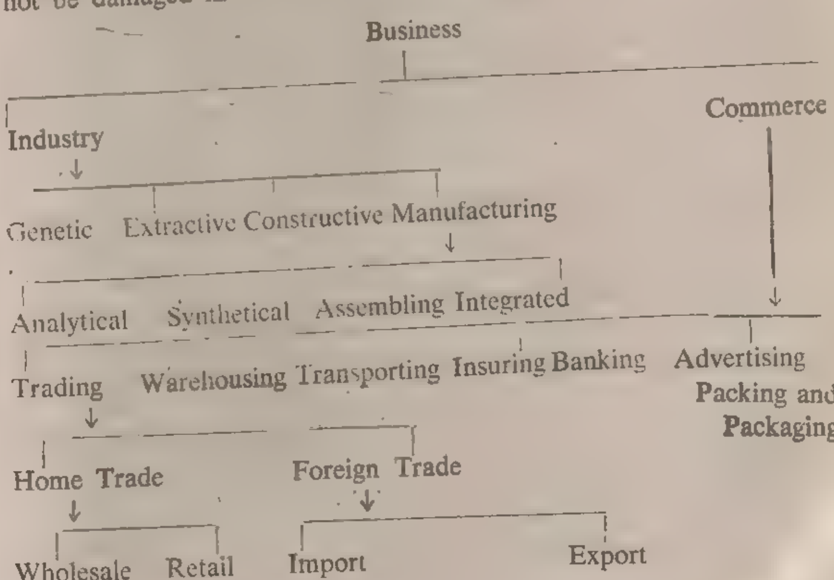
advertising, transporting and packing. All these activities are included within the term 'Commerce'.

Commerce refers to and includes all those activities which are necessary for removing certain hindrances in respect of person, place, time, finance and risk that stand in the way of satisfaction of human wants.

Hindrance in respect of person is removed by trading operation. A businessman purchases commodities from those who want to sell and sells goods to those who want to purchase. Hindrance in respect of time is removed by ware-housing. Businessmen keep goods in warehouses to sell these in proper time. Commodities are now widely demanded in different places. Every businessman finds difficulty in supplying goods to distant places. Transporting eases this difficulty. Similarly, hindrance in respect of risk is removed by insuring banking operations to remove financial difficulties.

Besides these, various other functions are included within the term, commerce. These are advertising, packing and packaging. Consumers are to be informed about the quality standard of products. Otherwise, demand for goods or services cannot be created in the market. Information in respect of the quality standard of the goods or services is supplied to the buyers through advertising

At present commodities are sold and supplied to the distant markets. That is why, they are packed adequately so that they may not be damaged in transit.



Specialisation

A man cannot produce everything he wants in his daily life in the modern complex economic situation. His skill, energy and time are limited. So he remains engaged in the production of a particular commodity or service. He satisfies his other wants by buying commodities and services from other producers. In this way when a **definite skill is acquired in the production of a particular commodity or service, it is known as specialisation.** Different persons are engaged in different occupations in the society. Farmers in the villages produce food crops and vegetables and raw materials for the industry. A farmer produces a particular kind of crop, say, rice or wheat, jute or cotton. He cannot produce all kinds of crops needed in the society. On the other hand, industrial goods are manufactured in the factories normally established in cities and towns. Again, an industrial enterprise can manufacture a particular product and not all. For example, Jute mill, Sugar mill, Steel factory, Engineering factory etc. Likewise, a service enterprise sells out a particular service. For example, Railway company, Road transport firm, Airways, Insurance Co., Bank etc.. In this way, division of labour is introduced in the economic and business activities in the society. This type of division of labour in trade, industry and commerce is known as **Simple Division of labour.**

On the other hand, **Complex Division of labour** is adopted in business enterprises. In a big enterprise a man cannot perform all activities. A manager canot also look after every affair of the business. That is why, entire functions of an enterprise are divided into smaller parts and performance of each part is entrusted to a particular person. In this way purchase function is done by one person ; another looks after sale ; other directs production function etc. In other words, a person is specialised in a particular job.

Significance of specialisation in domestic output and employment.

At present specialisation has become significant in domestic output and employment of a country. Specialisation is now found in the production in every country. A businessman or an enterprise can produce a particular product. As a result, it acquires a definite skill in the production of a commodity. This increases efficiency in production. It means that commodities can be produced at a low cost. As efficiency is increased in all spheres of production, aggregate production of the country is increased.

Similarly, specialisation increases employment opportunities in a business enterprise. A man is not required to do all jobs as division of labour is introduced in business enterprise. Different activities are allocated to different persons. This increases employment opportunities in the enterprise. For several experts are necessary for the performance of various activities. Moreover, performance of small parts of a function becomes so mechanical that they can be performed by machines. This increases the scope for introduction of machinry in the enterprise. Hence, production in the machine building industry is increased and so employment in the machine manufacturing industry is increased.

Advantages of Specialisation

The following are the advantages of specialisation :--

(1) **Specialisation increases efficiency** : If a man is engaged in a particular job, his proficiency in doing that job increases and hence efficiency increases.

(2) **It provides greater scope for introducing machinery** : Functions of the enterprise are divided into smaller parts. Performance of each smaller part of the function becomes so mechanical that it can be done by the machinery. So scope for introducing machinery in the enterprise is increased.

(3) **A man gets the job he likes** : A man gets that kind of job which he likes best for right person is placed to the right job. As a result, he gets maximum satisfaction in the job. Therefore, his efficiency can be utilised to the maximum extent.

(4) **Specialisation increases production** : Specialisation enables a man to be engaged in the job for which he is very much efficient. This increases production.

(5) **It eliminates wastage of time and machinery** : Specialisation enables a worker to do a particular job. He is not required to move from one job to another. So time is not wasted in between finishing one job and taking up another. At the same time machinery can also be used to the fullest extent as a worker can do his job with a particular machine throughout the day.

(6) **It increases Co-operation** : Different persons are engaged in different occupations in the society. So co-operation among men in different occupations is increased for satisfaction of varied types of wants. And mutual co-operation is needed in the society.

Disadvantages of Specialisation.

Specialisation has also certain disadvantages. These are as follows—

(1) **It makes the work monotonous** : Specialisation makes a man do a particular job day after day. He does not enjoy diversity in the performance of his duties. This makes the work monotonous

(2) **It decreases the mobility of labour :** A worker gets training to do a particular work and becomes efficient in doing that job Hence, he cannot move from one enterprise to another. As a result if an enterprise is closed down, many workers become unemployed for they cannot be engaged in other enterprises.

(3) **Interdependence creates inconvenience :** Specialisation increases interdependence. For example, an industrial enterprise depends on farmers for the supply of raw materials. Moreover, in the modern complex socio-economic structure, an industrial enterprise cannot become selfsufficient. Hence, if for any reason farmers do not supply raw materials to the industry, it is closed down.

(4) **It lessens unity and solidarity among the workers and the people of the country** Division of labour rouses sectionalism in the working class Disunity is also found among men engaged in different occupations As a result, unity of the whole country is hampered.

Inter-relation of Trade, Industry and commerce

'Trade', industry and 'commerce' do not convey same meaning They are distinct and have distinct meanings. But they are inter related and depend on each other.

Industry refers to manufacturing of goods and thus creates shape utility In [illegible] industry collects timber from the forest and these logs of wood are given different shapes to make chair, table etc Iron ore, coal limestone, dolomite etc are collected from mines and the steel industry utilises them to produce steel Likewise, spinning mills produce yarns from cotton and weaving mills use those yarns to make cloths. Production aspect of the business is included in industry'

Commerce refers to buying and selling and other activities relating to buying and selling It means it includes not only purchase and sale but also other activities that are needed for effecting purchase and sale. Buying, selling, transporting, waresousing, financing, insuring advertising, packing, packaging etc. are all commercial activities.

Trade is a branch of commerce. Commerce signifies exchange. Exchange operation is undertaken by means of trading activities. That is why, trade refers to sale and activities concerning sale. Distribution of goods is the proper function of trade.

To sum up, therefore, industry refers to production, commerce relates to buying and selling and activities that are needed for buying and selling and trade distributes commodities by means of buying and selling.

Trade, industry and commerce depend on each other. They are closely related. Commodities are produced for selling them in the market. In other words if commodities are sold, they are to be produced first. So industry depends on commerce and commerce on industry. Business includes both industry and commerce.

The word, **'Commerce' is used in a wide sense.** It means exchange and includes all activities relating to exchange. The word, **'trade' is used in a narrow sense.** For effecting exchange buying and selling are necessary. Trade includes buying and selling.

Trade is of two types, namely, Home Trade and International Trade. When commodities are traded within the political boundary of a country, it is Home Trade. Export by one country to another and import by one from another are called International trade. When commodities are bought and sold within India, it is home trade. But when India exports goods to the U.S.A. and the U.K. and imports things from these countries, it is international trade.

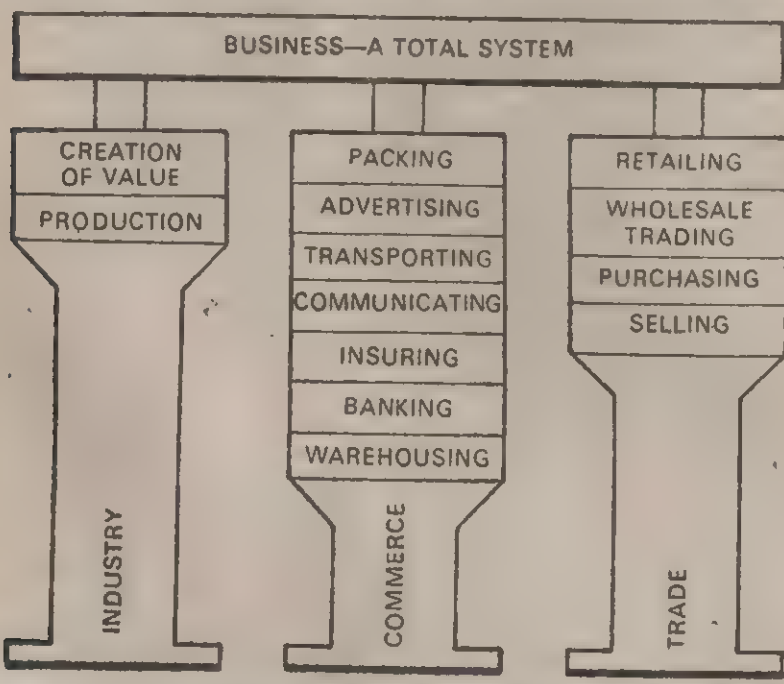
Home trade is again of two types, namely, National and Local. When trade is extended from one province or state to another within a country, it becomes National trade. When a trading concern in West Bengal extends its business to other states, say, Bihar, U.P. etc., it is national trade. But when buying and selling are confined to a local area, it becomes local trade. Trading within the boundary of West Bengal is an example of local trade.

Again trade may be Wholesale and Retail. When commodities are bought in bulk from the producers and sold to retailers in small quantities, it is known as wholesale trade. On the other hand, when commodities are bought from the wholesalers and sold to consumers, it is called retail trade.

Inter-relationship of trade, industry and commerce makes business a total system.

Trade, industry and commerce do not convey the same meaning. But they are interdependent. With trade, industry and commerce busi-

ness makes a total system. From the production of a commodity down to its selling to a consumer, business along with trade, industry and commerce takes a total shape. In other words, business has three parts, namely, trade, industry and commerce. These three parts of business make a unified whole. Let us take an example to show how trade, industry and commerce make business a total system. Suppose, raw cotton has been produced in a village of Gujrat. A cotton farmer of Gujrat sells it to the cotton market of Bombay. A spinning mill of Maharasthra buys it from Bombay cotton market to make yarns and sells those yarns to a Bombay weaving mill. The Bombay weaving mill makes cloths using those yarns and sends them to Calcutta by railway to sell them to a wholesaler in Burrabazar. Then the Burrabazar wholesaler sells some of those cloths to a retail shop at Sealdah. Mr. A. suppose, buys a cloth from the Sealdah



retail shop. Production of raw cotton, making of yarns and weaving cloths are industrial activities. On the other hand, selling of raw cotton by the Gujrat farmer, buying of raw cotton and selling of yarns by the spinning mill, buying of yarns and selling of cloths by weaving mill and buying and selling of the Burrabazar wholesaler and the Sealdah retail shop are commercial and trading activities. So,

from the production of raw cotton in Gujrat down to selling of a cloth at Sealdah, trade, industry and commerce make business a total system.

Significance of business activeties in domestic output and employment

There are two types of business enterprises, namely, Industrial enterprises and Commercial enterprises. Function of industrial enterprises is to collect resources from the nature and to produce industrial goods out of them. Farming, fishing, animal rearing, lumbering etc. are all industrial activities. Enterprises which are engaged in all these industrial activities are known as Primary Producers. The main activity of the primary producers is to collect natural resources and supply them to the secondary producers. Enterprises which produce varied industrial products using the natural resources are called Manufacturing industry or Secondary Producers. Steel plant, weaving mill, sugar mill etc. are examples of secondary producer. Again, there are certain enterprises which collect industrial products from the secondary producers and supply them to the consumers. They are known as commercial enterprises. They are engaged in buying and selling of commodities. For example, wholesaler and retailer. For effecting exchange or buying and selling certain other activities are necessary. These are warehousing, insuring, advertising, packing, banking, transporting etc.

So it is found that business activities are significant in the domestic production of a country. Aggregate production of a country is increased on account of business activities. As more and more business enterprises are established, aggregate production of the country is increased with the increase in primary and secondary production. In other words, the responsibility of the development of agriculture and industry or in a word, economic development of a country is entrusted to the business enterprises.

Business has a significant role not only in increasing production but also in increasing aggregate employment of a country. People of a country earn their living in various ways. Businessmen employ themselves by establishing business enterprises. Men are also employed in business enterprises. They earn their living as employees of the business enterprises. Therefore, businessmen not only provide themselves with employment by establishing business enterprises, they are also increasing employment opportunities. So it can be said that if more and more business enterprises are established, they will create more and more employment opportunities. Unemployment problem

of a country is mitigated by creating employment opportunities through the establishment of more and more business enterprises.

In this way, business enterprises increase the aggregate production and employment of a country by participating in its economic development.

India is a developing country. So its agricultural production is greater than those of industrial and tertiary (service) sectors. In the developed country like the U.S.A., U.K. Germany and Japan balanced growth has been achieved in all spheres of production, namely, agriculture, industry etc. India has not yet achieved this balanced growth of different sectors. India gets 50% of its production from agriculture and animal rearing, 18% from transport and communication and commerce and 17% from Industry and mining.

In 1971 census report the **working population of our country** has been divided on the basis of occupation. 33% of the total population in India are engaged in different occupations. It means about 18 crores and 15 lakhs out of the total population of 55 crores are engaged in different occupations. India being a developing country more of its people are engaged in agriculture. **The census classification of India's working population employed in different occupations** are given below—

	Per cent	Per cent
Primary Sector		
Farmer	43	
Agricultural Labourer	26	
Animal rearing, Forestry, Fishing, Hunting and Plantation	3	72
Secondary Sector		
Mining	1	
Industry	9	
Construction ind.	1	11
Tertiary Sector		
Trade and Commerce	6	
Transport, communication and warehousing	2	
Others	9	17
Total		100

Of the foregoing population those who are engaged in production and selling manufactured goods in the market are engaged in business. In the primary sector excepting agricultural labourer all are engaged in business. Similarly, in the secondary and tertiary sectors all excepting labourers are engaged in business.

Business Undertakings

Classification of Business Enterprises

Business enterprises may broadly be divided into—(a) Industrial enterprises, (b) Commercial enterprises.

Commercial enterprises may be of three types—(a) Service enterprises, (b) Financial enterprises and (c) Marketing enterprises.

Service Enterprises—These enterprises provide services. Transport, communication, Insurance Companies etc. are examples of service enterprises. They do not produce any commodity. They help production and sale of commodities by rendering useful services.

Financial Enterprises—These enterprises supply finance to several business enterprises. Commercial banks, Investment Companies, Unit Trust, Financial Corporations are financial enterprises. These financial institutions supply long and short term loans and advances to business enterprises. Of these commercial banks provide short term loans.

Marketing Enterprises—These enterprises provide markets to different other enterprises. Stock brokers' firms, Issue Houses, Wholesale and Retail concerns are examples of marketing enterprises. Their main function is to sell in the market. They do not produce anything.

Business Enterprises

Industrial — Commercial

Service — Financial — Marketing

Personal and Impersonal Aspects or Profit and service motives of Business.

Business has two aspects, personal and impersonal.

Personal Aspect : Personal aspect refers to profit motive of business. Profit is the prime motive of business. Business is the way

of living. A man enters into business for earning something and not for any other purpose. This something is profit. If he runs his business smoothly and manages and directs it efficiently, he can surely make profit.

A businessman does everything for the success of the business He bears all its risks and uncertainties. It is he who decides what type of business would bring him maximum profit in the present economic condition. He starts the business. He provides his own capital or procures capital from different sources. He procures raw-materials from different sources, appoints skilled workers and manages and directs all its affairs efficiently. He exercises his business intelligence and acumen for the success and improvement of the business. In fact, he works hard for its success and development. As against these hard working and risk and uncertainty bearing, he expects something from the business. He gets profit as his prize or remuneration for hard-working. Profit is the incentive of his hard work. Profit is the yardstick of business success.

There are four factors of production, namely, land, labour, capital and organisation. Every factor gets remuneration for participation in the production. Land owner gets rent, suppliers of capital get interest, workers get wages and businessman gets profit for organisation of the business.

Profit-making is the prime motive of business firms in the private sector as the profit provides return on their investment. In other words, a private firm exists so long as it makes profit. If it sustains losses for consecutive years or if it has no chance of making any profit, the firm finds no other way but to close down its business. That is why, the officials of the private firms remain always alert and active and utilises their skill and acumen to the maximum extent for the success and survival of the business.

Although profit is the primary motive, a businessman also aspires for social power and prestige. A small trader has no social recognition or status. But when the business becomes a big one and when the small trader becomes a big businessman or an industrialist, he acquires social power and prestige. He begins to provide leadership in the business world. And business leadership ultimately culminates into social leadership.

Accumulation of wealth and capital is another motive of business. A businessman expects a fair return on capital invested by him. Fair return on capital may lead to capital formation and accumulation of wealth.

Impersonal or social Aspect or Service Motive.

Impersonal or social aspect refers to service motive of business. Although profit is necessary for the business, it should not be the only objective of business. A business cannot survive if it is run only for making profit.

Profit can be made in various ways. Large amount of money can be earned by selling low quality products at higher prices. In that case businessman can do business for once and not for the second time. For he cannot deceive the public by selling the inferior quality at higher prices again.

So he should not satisfy his own interest only by making profit. He should also look to the needs and aspirations of his customers by supplying goods at reasonable prices. Not simply profit but service to the customers or in other words, to the nation should be the objective of business.

Businessman is also a social being. He cannot do business neglecting the society. He cannot bring forth business success unless he supplies goods and services for the purpose of satisfaction of needs, aspirations, tastes and fashions of the society. Therefore, he cannot remain indifferent to the welfare of the society.

A businessman is a producer and at the sametime a consumer. While producing commodities he needs rawmaterials and other necessary things. Moreover, a businessman cannot produce everything he needs in his everyday life. He must procure them from other suppliers. This shows that he should meet the needs and aspirations of his customers as much as his needs and aspirations are looked into by his suppliers.

Therefore, it is clear that businessman must discharge his social responsibilities. He may fulfil social responsibilities by providing service to the customers in the following ways—

(a) By supplying good quality goods and services at reasonable prices.

(b) By creating and providing employment opportunities.

(c) By paying adequate and fair wages to the labourer.

(d) By utilising limited resources of the country economically and rationally.

(e) By paying reasonable prices to the suppliers of other factors of production.

(f) By paying taxes to the state.

(g) By offering new varieties of goods and services to meet changing tastes and fashions.

(h) By conserving assets and maintaining fair return on capital and thereby providing for capital formation.

In business both these aspects should be looked into. A businessman, no doubt, makes profit, but while making profit he should also discharge social responsibilities. If he makes profit only and does not satisfy the needs and aspirations of his customers, he will bring forth disaster to his business. Moreover, society is also providing facilities to the business by developing transport and communication, making available raw materials for the products, supplying long term capital and creating economic and political environment. As against these, a businessman should also serve the nation by discharging his social responsibilities.

Profit motive and social obligations must go hand in hand. In other words, businessman can make profit only when he meets social obligations.

In India business enterprises are also owned and managed by the Government. These enterprises are known as State or Government enterprises and comprise the public sector of our country. Profit making is not even the motive of these enterprises. Damodar Valley Corporation has been established not for the purpose of making profit but for realising certain objectives, namely, flood control, providing irrigation water, generation of hydro-electricity etc. Similarly, Oil and Natural Gas Commission has been established for the purpose of finding out new petroleum mines in India. But certain Government enterprises are run commercially, namely, Life Insurance Corporation, Indian Oil Corporation Ltd., etc. Even in these enterprises profit-making is regarded as the secondary motive. Profit must also be made by these Government enterprises but profit is regarded here as the yardstick for measuring the managerial efficiency. It means that if such an enterprise is managed properly by effective utilisation of men, money, materials and methods and wastes are eliminated, profit can surely be earned.

Separate Entity of Business Enterprise

Every business unit has one proprietor or more. For example, there is only one proprietor in the sole-proprietorship business. In the partnership business there must be minimum two proprietors or entrepreneurs. A company is owned by many shareholders. Similarly, a co-operative association is owned by many members who form it.

Though every business enterprise has one proprietor or more, business unit and its proprietor are not regarded as the same person. **A business has a separate existence or entity** apart from the owner who forms it. A business may contiune even though its ownership is transferred from one person to another. It means that it is not closed down even when it is sold out. This happens because of the separate existence or entity of a business.

Let us take an example to show how a business exists separately. Suppose, one Rameshbabu has a tea stall. Suppose again, the name of the tea stall is 'Baikali'. Rameshbabu worked hard for the success of the business and his business has now earned reputation or goodwill. For the last ten years Baikali has been running as a reputed restaurant. Now Rameshbabu has become old and so he is not in a position to manage the affairs of Baikali as efficiently as he did a few years ago. Finding no other way, he sells out his shop. The person who buys the shop runs it in the same name. Lest the change of name tells upon the reputation of the shop. But he does not also manage it efficiently. So he sells it to another person. Customers who frequent to Baikali for taking tea know that it is an established restaurant which has been running with reputation. To them Baikali is an old and reputed shop and it has been running for a long period. They do not know that its ownership has been transferred two times by this time. They are conscious about the existence of Baikali. They do not bother as to who is the owner of Baikali. So it is clear now Baikali has a separate existence apart from its proprietor who owns it. Baikali has been continuing as usual even though its ownership has been transferred. Baikali and its owner are not the same person. This is what is known as the separate existence or entity of a business firm.

Transactions are recorded in the books of account on the basis of this idea that every business has a separate existence or entity. It means that accounting entries are recorded on the basis of **entity concept**. That is why, the capital which a proprietor invests in the business is a liability to the business. It is shown in the liability side of the balance sheet. This signifies that if the business is closed down, business will pay back the capital to the businessman.

Though every business has a separate existence, it is not legalised in every form of business. Soleproprietorship, partnership and joint family business forms have their separate entity but it is not recognised by law. It means that soleproprietorship or partnership or joint family business has no legal entity. But the separate existence of a company has been legalised. A company has a separate entity and a

legal entity. It is regarded as a separate person in the eye of law. A co-operative association, if it is registered, also acquires a legal entity.

Therefore, it reveals that every business unit has a separate entity but no legal entity.

Objectives and Principles of Business Undertakings

Multiple objectives of Business Undertaking and balancing :

The objective of business undertaking signifies what aims the business strives to achieve in the management of its affairs so that it can make profit and survive in the competitive market. When the existence of a business firm depends on the efficient performance of its affairs in every sphere and on its result, determination of objectives becomes indispensable. Business activities cannot be performed without determining any objective. Without any aims and objectives before him a businessman cannot produce things at a low cost and cannot also make profit by trading goods or services.

A business enterprise strives for three objectives, namely, Economic, Social and Human.

Economic Objective

Economic objective of a business enterprise is to make profit by supplying goods or services. Man has varied wants—physiological and mental. Physiological needs are satisfied by means of food, clothing and shelter. And mental needs are met by reading books, sports and games and by other amusements and recreations. Businessman satisfies the manifold wants of the socity by supplying various goods and services. Wants create demand for various commodities and services. And trader makes profit by supplying goods and services according to the demand. Of course, demand is changing. With the increase in population quantity of goods and services demanded is changing. On the other hand, demand for new varieties of products is increasing along with the changes in tastes and fashions. Therefore, a businessman is required to produce such products that can satisfy tastes and fashions prevailing in the society. Otherwise, he cannot realise his economic objective. Sometimes businessman brings in changes in taste and fashion. He creates new fashion by innovating newer varieties of products.

It is not that a trader can realise his economic objective simply by distributing goods and services. But that he has to supply them at reasonable prices. For supplying them at acceptable prices he should try to reduce the cost of production and distribution. Cost of production can be reduced variously by eliminating wastages, utilising by-products, taking advantage of buying raw materials at cheaper prices, improving productivity and securing economies on various other ways. But the cost of production can be reduced by the foregoing means by efficient management and control. An enterprise can increase its profit so long the business manager shows efficiency in the management of the affairs of its business. In other words, profit is the yardstick for measuring the managerial efficiency. If prices and demand for the commodities remain the same, increase in profit reveals that the affairs of the business have been controlled and managed efficiently.

Profit is the prime motive of business. A man enters into business for the purpose of making profit. Businessman earns his living by organising business. He works hard for the establishment and development of the business. He supplies initial capital and procures various factors of production. He uses his business intelligence and acumen for the success and development of the business. As against these hardworking and undertaking responsibilities, he expects something from the business. Profit is his remuneration or reward for hardwork.

Social Objective

Social objective refers to service motive which signifies supply of goods and services at reasonable prices to the consumers for meeting their needs and aspirations, tastes and fashions. A businessman is a social being. He lives in the society and follows social practice, customs and conventions. He cannot do business and thereby earn his living alienating himself from or neglecting society. Businessman, no doubt, makes profit for it is the remuneration of his hardwork. It is the incentive which allures a man to enter into a business. But if a trader directs his business simply for the purpose of making profit, he will bring disaster to his business. Profit can be made by various nefarious ways. It can be made by selling inferior quality at higher prices, creating artificial scarcity by means of hoarding, depriving workers of their reasonable and fair wages etc. In that case businessman will be a profiteer and not profit maker.

Men live in the society by helping each other. It is impossible for a man to live alone in modern civilisation. Every man strives to live in the society by helping one another in the performance of duties and responsibilities. A trader too does his duties and fulfils his responsibilities by producing goods and distributing them in the society. If he neglects his social duties and responsibilities, he stands in the way of social progress.

A trader sells goods and services for meeting needs and tastes and fashions of his customers and at the same time buys goods and services for satisfying his own needs and of his business. He has to acquire raw materials, machinery, ancillary things for production of industrial goods. It is neither practicable nor profitable for him to produce raw materials and machinery and then manufacture the finished products with them. So he has to buy all the materials and machinery from other producers. Hence, every producer is also a consumer. This shows that he should meet the needs and aspirations of his customers as much as his needs and aspirations are looked into by his suppliers.

Every country endeavours to achieve certain **national objectives.** All the efforts of the country are directed towards achieving those objectives. We also in our country strive to achieve certain national objectives. Removal of the poverty of the masses, expeditous development of agriculture and industry, increase in aggregate production, mitigating unemployment problem, improvement of the standard of living, reduction in the disparities of income and wealth etc. are some of these objectives. Responsibility of the realisation of these national objectives has now been entrusted to both the public and private enterprises. Particularly, Government of India expects that the private enterprises would also be careful in achieving these objectives. It is, therefore, their duty to help the Government in materialising those national objectives.

Human Objective

Normally two types of factors are necessary in production, namely, Material and Human. Raw materials, machinery, capital-goods, assets and properties etc. are the material factors. Labour is the human factor. At present enterprises are mostly organised on large scale. As a result, production process has become complex. In this complex production process labour has a definite role. In a big enterprise job is done by group efforts. A worker cannot do all jobs.

A manager cannot look after every affair in the business. So different functions are conferred to different persons. The aim of every enterprise is to use the skill and dexterity of the working and managerial personnel to the maximum extent and thereby to reduce the cost of production. And a worker or a manager can exercise his skill to the fullest extent only when he gets maximum satisfaction from the job. And a worker can get maximum satisfaction if he is placed to a job on the basis of right person to the right job. This improves labour productivity.

Labourers should not only be placed to the right jobs but their welfare should also be looked into. They are to be given adequate and fair wages. They are to be paid incentive wages to encourage them to produce more. In other words, they are to be motivated to rouse among them the willingness to work. At the same time managers should also shun their narrow outlook and consider the working personnel as their partner in the management of business affairs. Every subordinate should be given decision making power by effecting decentralisation of administrative authority. They are to be encouraged and praised if they take right decision at the right moment and promoted to the higher ranks. The working personnel should be given to understand that the enterprise does not belong to the manager or proprietor only, it is also belonged to them.

In this way by paying adequate wages to the workers, by placing them to the right jobs, by conferring them decision making power, by considering them as a partner in the production and management of the business, human objective of the business is to be realised. If the human objective is fulfilled the skill of the working personnel can be utilised to the maximum extent. This will reduce the cost and maximise the profit.

The foregoing three objectives of the business cannot be achieved separately. They are interdependent. If the social objective is achieved, the businessman may find that his economic objective has also been fulfilled. Human objective is also a part of social objective. It is not that a businessman should strive to achieve economic objective only. It is also not that he should discharge social responsibilities only and not endeavour to make any profit. All these objectives are to be balanced to achieve the overall objective of the business.

Diverse Activities or operations of a Business undertaking

Functions of a business undertaking are classified as—(1) **Basic Function and (2) Auxiliary Function.**

Basic functions of an industrial enterprise are two, namely, **Production** and **Sale.** Commodities are produced in the factory and then the manufactured commodities are sold in the market. A commercial enterprise does not produce anything. Its basic functions are **Purchase** and **Sale.** It buys commodities from one market and sells them in another.

All other functions are auxiliary functions. For example, auxiliary functions of an industrial enterprise are—**Purchasing, Engineering, cost Accounting, cost controlling, Personnel Management, Research, Inspection, Packing, Advertising, Storing, Accounting, Sacretarial Functions etc.**

Auxiliary functions help the performance of basic functions. Auxiliary functions like purchasing of raw materials and machinery engineering, cost-accounting, personnel management etc. are necessary for production of commodities. Likewise, for selling commodities in the market advertising, salesmanship, sacretarial function, accounting etc. are required. If commodities are not produced, its auxiliary functions are not necessary. In a commercial enterprise things are not produced. So auxiliary functions to production are not necessary.

Functions of a business enterprise are discussed below—

Production : Finished product may be produced by mixing different raw materials or various finished products may be obtained by analysing a particular raw material. Production requires also specialisation. Sometimes, parts of a commodity are required to be manufactured. Manufacturing of parts, necessitates sometimes, introduction of specialisation. knowledge of Science and Technology is required for this function. Technologist is appointed for manufacturing the product and its parts. A works manager or factory manager is entrusted with this function. Production department is given this function and a production manager is in-charge of production department. It is again divided into certain sections and each section produces a particular thing.

Purchasing : This function includes purchasing of raw materials, machinery, ancillary things, small tools and assets for using them in the business for earning income. This function is entrusted to a purchase department. A purchase manager looks after this department.

Cost-Accounting : This function relates to finding out the total cost of production and the cost per unit of article produced. Cost is divided into variable and fixed cost. A minimum selling price is

found out that can cover both the costs and also normal profit. This function is entrusted to costing department and a cost accountant is in-charge of this department.

Personnel Management : This function refers to recruitment of working and managerial personnel, placement of workers and managers to different jobs and positions, training of the workers, looking after their welfare, creating, and producing better working conditions maintaining discipline, promoting efficient workers and manager to higher positions and wage and salary administration. This function is entrusted to a personnel department and a personnel manager is to look after this department. A personnel manager should be well conversant with psychology and sociology to perform this function efficiently.

Storing : Storing means preservation of raw materials, machine tools, ancillary products and finished products and keep them ready for supply. Raw materials, machine tools, ancillary products etc. are stored so that they can be supplied whenever production and other departments demand them. Similarly, finished products are kept ready for supplying them in time to the customers. Sometimes, raw materials are purchased and stored when their prices come down so that business may not suffer from adverse price fluctuation in future. A stores department or general stores are entrusted with this function. A materials manager is appointed to look after this department.

Sales : Selling of the product in the market is the main function of a business enterprise. In fact, success of a business is dependent on efficient operation of sales function. This function is entrusted to a sales department. A sales executive takes the responsibility of this department. He is assisted by subordinates known as Area Sales Managers. Sometimes, market is divided into different zones and area sales managers are appointed to conduct selling operation in different zones. Each area sales manager is also assisted by salemen who sell directly to the customers.

Financial Accounting : This function relates to recording of transactions in the books of account. It is entrusted to an accounts department. Preparation of Trading and Profit and Loss Account showing the trading result of the business and a Balance Sheet to show the financial position of the business is the important responsibility of this department. A chief accountant is appointed to look after this department. He is assisted by a host of accounts clerks. A cash section helps the department to deal with cash receipts and payments.

Advertising : This function is necessary for creating customers. It induces the general public to buy the products. It makes the buying public know everything about the product—its quality, functionability and capacity to satisfy the varied wants. It is very much helpful to the selling operation for it is now indispensable for increasing the sales volume. A public relation officer is entrusted with this function and he is in-charge of advertisement department. Advertisement is made for drawing the attention of different groups of consumers. That is why, it takes the help of psychology and sociology to study the social relations and tastes and fashions of the consumers.

Secretarial Function : Almost every enterprise is provided with a central office. A secretary is in-charge of the central office. The main function of the office is to collect business information and to disseminate the information to various departments. It also drafts correspondence, handles incoming and outgoing mails, prepares documents and files, the various papers in proper order. In a joint stock company the secretary arranges for the meetings of the directors and shareholders, gives notices to the interested persons and prepares the minutes of the meeting.

Planning : This function relates to the determination of objectives and formulation of plans and policies. What commodities are to be produced, quantity and quality to be produced, probable cost of production, the required sales volume –all these are included in a plan It is entrusted to a planning department which prepares budgets for various operations. And for preparation of budgets the department depends on economics and mathematics.

Management and Organization : Developing organisation for the management of the affairs is an important function of a business. This is not a special function of any business. Management is necessary for efficient performance of all the affairs of a business. In other words, proper administration of all the affairs of a business is known as management. And for efficient management of the business, organisation structure is to be built up. Different departments are created for performing different functions of an enterprise. For example, purchase dept. sales dept. production dept, etc. Different managers are also appointed to look after the affairs of different departments. For example, purchase manager is to look after purchase dept., sales manager to look after sales dept., etc. But the activities of the managers and their subordinates performing functions of different departments are to be co-ordinated. Senior manager co-ordinates the affairs

of junior managers. And a chief executive harmonises the activities of senior managers. In this way organisation of a business is built up so that by efficient management business success can be achieved.

Specialisation and Harmonisation or Integration of Diverse Activities

The foregoing functions of a business enterprise are entrusted to different departments. In other words, departmentation is effected on functional basis. For example, purchasing function is given to the purchase department, production function to the production department, sales function to the sales department etc.

But the business objectives cannot be fulfilled simply by conferring different functions to different departments. The various activities of the enterprise are to be harmonised or integrated. And the harmonisation or integration can be made when the functions are done at the same pace and at the same quantity. As the specialisation of diverse functions is needed so also their integration. Let us take an example. Suppose, an industrial enterprise has got an order of ten thousand units of a commodity. After getting the order the chief executive instructs the works manager to produce the required quantity within the time. Likewise, the works manager directs the production manager of the production department to manufacture the quantity if it is not in the stock. He also commands the purchase manager to buy the raw materials and other necessary things and supply them to the production department to produce the required quantity. After that the sales department may be instructed to execute the orders of different customers. Now, the functions of these three departments are to be harmonised to supply the commodities according to the orders placed by the customers. And these three departments have to do their jobs at the same time and the same volume of work otherwise their functions cannot be co-ordinated and integrated. On the other hand, if the purchase department does not buy the required quantity of materials and necessary machinery, if the production department does not produce the ordered quantity, it would not be possible for the sales department to execute the orders of the customers. In other words, the functions of these three departments cannot be harmonised and integrated.

Principles of Business Undertaking as general guides and application in Practice

What principles a business enterprise will follow depend on the nature of the business, nature of production and product, buying and

selling methods etc. Size of Business unit also influences the principles. Ownership of business is also a factor in determining its objectives and principles. A private undertaking determines such objectives and follows such principles which are quite different from those of a state undertaking. A state undertaking is established and managed not for making profit but for realising certain national objectives. On the other hand, a private enterprise makes profits by selling quality goods at reasonable prices. Structural form of business also affects the business policies. A public limited company is normally organised as a large enterprise. Its ownership is spread over a large number of persons as its capital is contributed by a large number of persons. It formulates, therefore, certain distinct policies and applies them to a wider area. But a sole proprietorship or partnership business is generally organised as a small enterprise. They do not procure capital from the public. So their policies and principles are not framed for applying them to a broader field.

But certain principles are applicable to all business enterprises. Whatever may be the size, form or nature of ownership, a business enterprise has to follow the following principles :-

(1) **Determination of objectives :** The important task of a business enterprise is to determine its objectives. Firstly, what quality standard and quantity of commodities at which prices are to be supplied to the consumers ; secondly, what amount of capital is to be invested, what fair return on such capital is to be secured ; thirdly, what would be the size of the business ; fourthly, number of workers and managers to be employed, what type of skilled labour to be required for the business, what amount of salary and wages to be paid to them so that their initiative and enterprise could be utilised to the maximum extent —all these economic, social and human objectives are to be determined. But it should be seen that the business objectives do not go against the national objectives and government policies.

(2) **Planning :** Planning is necessary for proper performance of the affairs of the business. Plans and policies have to be formulated for implementing objectives set forth. What process, policy and programme are necessary for achieving the objectives are to be determined. From where materials and machinery are to be procured, how the business functions are to be allocated to different departments and managers. What would be the number of personnel of different departments and how the activities of different departments are to be

co-ordinated for determination of all these planning is necessary. A budget is prepared for giving shape to what has been considered in the plan. Budgeting is also a part of planning. Budget is prepared considering carefully the objectives of business. But whatever plan is formulated it should take into account future trend of business. In otherwords, expansion of the business in future should be provided for in the plan. Henri Fayol, an eminent French management expert points out that a good plan must have unity, flexibility, continuity and subtlety.

(3) **Analysis of the Tasks :** Success of a business is dependent on the efficient management of the business affairs. For efficient management the first thing that is to be considered is what is to be done and the best way of doing it. For this the tasks and duties of the business are to be analysed and division of labour is to be enforced. It means that each function is to be divided into smaller parts. These smaller parts of each function are to be allotted to different individuals. Basic functions of a business are production, purchase and sale and the auxiliary functions are cost accounting, financial accounting, personnel management, advertising, secretarial function etc. These auxiliary functions are necessary in a big joint stock company. They are all not required in a small sole proprietorship or partnership business. Even then all these basic and auxiliary functions are to be carefully analysed for their proper performance.

(4) **Sound Organisation :** After analysis of the different tasks of the business departments are to be created. Departments can be created on the basis of functions. In that case each department is entrusted with a particular function, for example, Production department, Purchase department, Sales department etc. On the other hand, if the enterprise deals in various commodities, departments can be created on the basis of products manufactured. Each department produces a particular commodity. In service enterprises departments are created according to the areas of operation. The entire market is divided into certain zones and regional or zonal departments are made. Big service enterprise like Indian Railways and Life Insurance Corporation have created divisions on regional basis. In big factories departments are created on the basis of machinery and equipments. For example, Lathe department which installs only lathe machine. Similarly, Drilling department, Boring dept., Grinding dept. etc.

After this departmental heads are appointed to look after different departments. Departmental managers determine the number of assistants they require and delegate them responsibility and authority.

In this way, organisational structure of the business is to be built up by establishing managerial relationship and delegating responsibility and authority. Every business undertaking must have this organisation otherwise efficient management of the business is not practicable.

(5) **Quality control** : Business success is to a great extent dependent on quality of the products. Consumers want to buy quality products at reasonable prices. Markets of the quality products are normally extended and when markets are extended expansion of the business becomes inevitable. In this way quality products help a small business to become a large one. It is necessary, therefore, quality of the products should be looked into carefully in every business. On the other hand, if an enterprise advertises an inferior quality as a superior product and in this way deceives general consumers, it will do business for once. It will not be able to do business second time ; for, general consumers cannot be deceived time and again. Moreover, swindling is not a business.

If business enterprises of the country improve quality of their products, quality standard of the products in general will improve. Improved quality extends the export market of the country. Exports of the country will, therefore, be increased. All these will ensure industrial development and prosperity of the country. So whatever may be the business, improvement in quality standard will surely bring in business success.

(6) **Profit Making :** Profit making is the prime motive of every business. Whatever may be the business, industrial or commercial, its objective is to make profit. The enterprise which does not make profit is not a business undertaking. It is a charitable institution. If a private undertaking cannot make profit, it is closed down. That is why, managers of the private undertaking manage business affairs efficiently and skilfully so that the business can make profit. But a public undertaking is established not for making profit. It does not mean, of course, that profit is not made in the public enterprises. If the factors are utilised to the maximum extent, wastage is eliminated and managers show their skill in the administration of the business, profit can also be made in the government undertaking.

Organisation and Management of Specialised operations.

Management : We have noted earlier that business has various specialised functions, namely, purchase, sale, production etc. Management is necessary for the operation of these specialised functions. **Management means activities that get things done through people.**

Management performs certain important functions for getting things done through people. These are—planning, orgainsing, directing, motivating, co-ordinating and controlling.

Management determines objectives and makes plan for efficient operation of diverse activities in business. For implementing plan it formulates policies, procedure and programme and prepares budget. Secondly, organisation structure is built up for allocating diverse functions to different individuals. Thirdly, directives are isssued to the working personnel so that they may start doing their allocated functions. Fourthly, managers and workers are to be motivated to rouse among them willingness to work. For motivating them their varied needs have to be satisfied. An eminent American psychologist A. H. Maslow classifies these needs as, physiological needs, safety needs, social needs, love or ego needs, and self actualisation needs. Fifthly, diverse functions of the business are to be co-ordinated and integrated and lastly, activities of subordinates are controlled for removing mistakes and deviation from plans and policies.

Organisation : One of the important managerial functions is to build up organisation for proper performance of various functions of business. **Organisation means division of functions between the different managers and co-ordination of their activities so that their united efforts may achieve enterprise objectives.**

Certain steps are necessary for building organisation structure in a business. There are—creation of functional departments like purchase department, sales dept., production dept., etc., allocation of duties to different managers, establishment of authority relationship, and delegation of authority.

There are three types of authority relationship that may be introduced in a business enterprise, namely, Line orgainsation, Functional Organisation and Line and staff organisation.

When the superior-subordinate relationship is established between the managers engaged in the similar operations, it is known as Line Organisation. For example, a chief executive is placed at the top position and is responsible for all the affairs of the business. He is assisted by two managers, namely, works manager in the factory and commercial manager in the office. Works manager delegates some of his authorities to production manager. Similarly, production manager confers authority to foreman and foreman to supervisor. Their nature of function is the same but the senior manager has more man-

agerial authority than that of a subordinate manager. Likewise, commercial manager delegates authority to sales executive and sales executive to Area sales managers. They are all line managers.

An eminent American mechanical engineer, Fredrick Winslow Taylor who is very often called father of scientific management, finds out functional managerial relationship or **functional organisation.**. He points out that it is not practicable for a line manager to look after every affair and to take decisions on all matters. Experts are to be appointed for taking decisions on different aspects of production. They have to give directions directly to the workers.

Later, Line and staff organisation has been evolved basing on Taylor's functional orgnisation and old line organisation. Two classes of managers are now appointed in an enterprise, namely, line manager and staff officer. Line managers are engaged in basic functions like production and sales. Staff officers are experts and they perform auxiliary functions. Staff officers give advice to the line managers. Purchase manager, personnel manager, accountant, research officer etc. are staff officers.

Dependence on other branches of knowlege and Skill.

A businessman depends on other disciplines or subjects for performance of various functions of business. It does not mean that he must be an expert in all subjects. Experts in varied disciplines are engaged in the business to perform its functions. A businessman need not be an expert but he must know a bit of other subjects so that he can know and understand how his expert managers are performing their duties.

Dependence on **Science and Technology** is necessary for the production of commodities. What type of technology is required it depends on the nature of the product. For example, dependence on mechanical engineering is necessary for the production of machinery. For the production of chemical products, business takes the help of chemistry. Secondly, business also depends on science and technology for purchasing of various raw materials and other products. For example, chemical or pharmaceutical concerns purchase different types of chemical products. In that case they have to depend on the subject like chemistry. Thirdly, business is required to maintain human relations in all spheres of its activities. Managers and workers are to be appointed. They have to be placed to different jobs on the basis of right person to the right job. It is to get various jobs done through them

Besides, business has to establish relations with the consumers and the general public. Their wants and demand pattern have to be studied. Moreover, demand is also influenced by the class of consumers the customers belong to. So the class character of the consumers is also to be studied. For all these, business is to depend on **Psychology, Sociology** and **Economics.** Finally, dependence on **Salesmanship** becomes indispensable for creating customers. Fourthly, business transactions are to be recorded in the books of account. For this business takes the help of **Accountancy**. Dependence on this subject is also necessary for finding out the net result of the business, that is, whether the business has made profit or incurred loss during a financial year. A manufacturing enterprise depends on **Cost-Accounting** for determining the cost of production of a commodity. Price determination is dependent on the nature of the market, that is, whether the market is perfect, imperfectly competitive or monopoly. To study the nature and conditions of market, business is to depend on **Economics.** Many new ideas have now been evolved in **Management** Science. Modern management now takes resort to **Operation Research Method.** It depends on **Mathematics, Engineering** and **Industrial Psychology** for finding out a management method suitable for a particular business. Moreover, business also needs **Mercantile Law** and **Statistics.**

Therefore, it reveals that the business is to depend on other branches of knowledge and skill, that is other subjects, for performance of its varied functions.

✓ Business, Economy and Society

When a group of people live together for achieving certain common objectives, it is known as **society.** Social relations are developed among them for their mutual consciousness and for achieving certain common purposes. Men in the society establish a definite pattern of social relationship. Social relation refers to various types of human relations, namely, political, economic, personal, impersonal, friendly and hostile relations*. Man cannot live alone. It is not possible for him to live alone. That is why, he lives in the society and is a social being. Man's personal trait or execellence fulfils only in the society. Not only that, living in the society is necessary for self-defence. It is necessary not only for protection from foreign aggression but also from starvation. For saving himself from starva-

* Society—Maciver and Page

tion and for decent and comfortable living man earns his livelihood. Economic relation that is developed in the society helps man to earn his living.

In the prehistoric period there was no economic relation among tribal folks. With the dawning of civilisations economic relations were established and with the increase in population it took a complex pattern. When the complex economic relations took a definite pattern, economy was evolved. Therefore, **When economic relation thrives through more or less a definite pattern, it is known as Economy.** The entire society is divided into buyers and sellers. There are constant exchanges between them. Seller sells the goods or services and buyer buys them. This is economic relation. So production, consumption, investment, saving, income, expenditure, home trade, foreign trade etc, all these constitute economy.

Economic system is developed depending on the pattern of economic relation that thrives in the society. If the economic relation is such that there is no existence of the institution of private property, no private trade and commerce, business enterprises are not owned privately, means of production and means of distribution are all state owned, the economic system thus developed is known as **Socialism.** On the otherhand, when private initiative and enterprise are given greater importance, in otherwords, when trade, commerce and industry are developed through private initiative and enterprise, market remain free and there is government control over trade, industry and commerce according to the necessity, the economic system so developed is known as **capitalism.** But when trade, industry and commerce are developed through both private and public initiative and enterprise and the entire economy is planned and regulated, it is known as **Mixed Economic System.**

In every economy there are three sectors, namely, Primary, Secondary and Tertiary. Farming, animal rearing, fishing, plant and animal breeding etc. are included in the primary sector. Mining and manufacturing of commodities constitute the secondary sector and services like trade, commerce, transporting etc. make tertiary sector. Activities of the primary and secondary sectors are called industry and the tertiary activities refer to commerce.

All business activities are economic activities but all economic activities are not business activities. If a farmer produces crops for his own consumption, if an artisan manufactures articles for his own use, if a labourer works for his own benefit, all these are economic activities but not business activities. On the other hand, if the farmer

produces crops and artisan maunfactures articles for selling them in the market for profit, these are economic activities and at the same time business activities.

Therefore, it reveals that **business is a constituent of economy and the economy is a part of society.**

Business Environment in India.

Business environment refers to those natural, economic and social conditions that favour the growth of trade, industry and commerce. Natural or geographical conditions in India are quite favourable for the development of trade industry and commerce. Various agricultural products are produced in India and these are used as raw materials in industries. For example, raw jute, raw-cotton. sugarcane, tea, coffee etc. Varied minerals are also available in India. These are coal, iron ore, manganeese, mica, copper etc. Many industries have been established depending on these minerals as raw materials. Forest and animal products are also found in plenty in India. Of course, simply favourable natural condition does not lead to business development in a country. Economic and social conditions must also be suitable. Economic and social conditions are congenial in the developed countries for the growth of business. Abundant capital, improved standard of living, increasing investment, higher per capita income —all these have paved the way for the growth of large scale business in the industrially developed countries. On the other hand, various difficulties stand in the way of business growth in the developing countries on account of their economic backwardness. India is a developing country. Its economic and social conditions are not favourable for the business growth. Hence, it faces various difficulties for the development of trade, commerce and industry. Some of these difficulties are—

(1) Shortage of Capital : Capital formation in India is very low. Since the per capita income is very low, the meagre income which a man earns is spent up for buying necessaries needed in daily life. Hardly any amount remains for saving. Hence, rate of investment in trade, industry and commerce is very low on account of shortage of capital. At present, the capital market in India has somewhat been changed. Several special finance and development corporations have been established. Their activities have increased the rate of investment in trade, commerce and industry. They are now supplying long term loans and advances to large scale industries. Moreover,

National Small Industries Corporation and Small Scale Service Institute have been established. They are supplying capital and technical know-how to small enterprises in India.

(2) Lack of Dynamic Entrepreneurship, Efficient Manager and Working Personnel : Schumpeter, a famous American economist, points out that developing countries lack dynamic entrepreneurial abilities. As a result, new business opportunities are not properly created and so new enterprises are not established. Moreover, large scale enterprise in India do not get adequate number of efficient managers and skilled and technical hands.

(3) Low Per Capita Income and Standard of Living : Business enterprises survive by selling their products in the market. So long market expands business enterprises find greater opportunities for selling their products. So expanding market for products may lead to expansion and development of business. But in India low per capita income and standard of living hinder the creation and expansion of markets for various products.

(4) Lack of Social Recognition : Small trader in India has no social recognition. Though big businessmen earn social power and prestige, a small trader has no social status. That is why, youngmen of our country want to be pleader, barrister, medical practitioner, teacher, professor, clerk, technologist etc. But they do not want to be a trader. For a small businessman cannot enjoy the social recognition which is accorded to men engaged in other professions.

Position has now somewhat been changed. Government policies are now favouring the growth of business in India. Mixed economic system is being followed in India. Government is now promoting industrial enterprises for economic development. Public sector is created in India by two ways, namely, by nationalising some private enterprises and by promoting new units. Business combinations also now lead to the business growth in the private sector.

Social Responsibilities of Business

We have noted that business is the constituent of economy and the economy is the part of society. Business activities refer to economic relations in the society. Mutual consciousness among men in the society develops social relations. A businessman must necessarily be socially conscious. For social consciousness rouses his sense of responsibility towards society. Like other citizens he should also do some

social duties and fulfils social responsibilities. And a businessman discharges social responsibilities by achieving certain objectives which the society is striving for.

He fulfils social responsibilities in the following ways—

(a) By supplying good quality goods and services at reasonable prices.

(b) By creating and providing employment opportunities.

(c) By paying fair and adequate wages to the labourer.

(d) By utilising limited resources of the country economically and rationally.

(e) By paying reasonable prices to the suppliers of other factors of production.

(f) By paying taxes to the state.

(g) By offering new varieties of goods and services to meet changing tastes and fashions.

(h) By conserving assets and maintaining fair return on capital and thereby providing for capital formation.

(i) By making necessary arrangement so that fumes and refuses that come out of the factories may not pollute environment.

(j) By giving effect to the economic policies of the government for achieving national objectives. The Government of India expects that the business community of our country should implement its economic policies for expeditions development of agriculture and industry, removal of the poverty of the masses, improvement of the standard of living etc.

A businessman also acquires certain social rights and powers while he fulfils social responsibilities. It is his right to initiate any business he considers suitable and flourish trade and commerce within the country. He establishes trade relation with the foreign countries. In exercising these social rights he adds to the economic growth of the country, mitigates unemployment problem and helps on various ways the development of trade and commerce. He fosters also international trade and commerce. He creates the necessary economic infrastructure by investing social capital. This social capital is invested for providing the society with roads, bridges, hospitals, schools, colleges etc. for the well-being of the countrymen and for the general development of the country.

If a businessman neglects his duties and does not fulfil the social responsibilities, his social power is eroded.

From the foregoing discussion it is now clear that the **business is responsible to some social groups, They are—(1) owners and inves-**

tors, (2) employees, (3) suppliers of materials and machinery, (4) consumers, (5) government or state and (6) community or society.

Owner of the business expects reasonable profit from his business. He works hard for the establishment and expansion of business. He supplies necessary capital. He manages his business efficiently. He uses his intelligence and acumen for reducing the risks involved in the business. Moreover, he bears the entire risk and faces uncertainties. As against all these, he expects to get something from the business. A reasonable profit is that something that he expects. It is the price or reward of his hard work. Besides owner, capital is also supplied by the investors like debenture holders, preference shareholders, commercial banks etc. They expect reasonable return on their investments in the business. In this way, by providing scope for and return on investment business increases savings of the country.

The worker expects from the business adequate and fair wages to enable him to maintain a reasonable standard of living. The worker also expects business to provide satisfactory working conditions. It means a congenial atmosphere and a better physical environment in which he has to work.

Suppliers of materials and machinery expect reasonable price and adequate orders for their products. It is the duty of the business to satisfy them.

The consumer expects from business quality goods and services at reasonable prices. Man has varied wants, physiological and mental. Manifold wants are being created for improvement in the standard of living. The consumer expects business to satisfy these varied wants. Business should, therefore, supply desirable goods and services to satisfy tastes and fashions of customers.

State wants business to provide socially desirable goods and services, employment opportunities, use judiciously limited resources of the country, meet the requirements of sanitation, minimum noise, avoid and minimise pollution of environment and earn a reasonable profit for owners of the enterprise.

The community expects maximum comfort and satisfaction of prevailing tastes and fashions. It expects business to contribute to the maintenance of community services.

It is clear that a business deals with all these groups in its efforts of producing and distributing goods and services. Therefore, satisfaction of all these groups is essential for business success.

Business System

The business system which was prevalent before the industrial revolution had undergone a radical change after the revolution. Before the revolution agriculture was the primary occupation of the people. Transport and communication was not developed. Agriculture was self sufficient. It means that farmers produced crops for their own consumption. With the development of civilization cities and towns were developed, for civilization meant at that time living in cities. Artisans in the cities began to produce articles by hand tools. Division of labour was being followed. Peasants in the villages produced crops and artisans in the cities manufactured articles. Barter system began between the farmers in the villages and artisans in the cities. Then money was introduced as a medium of exchange. It replaced the barter system. At that time farmers and artisans sold out their wares in the local markets. Transport was not developed and so export and import business could not be flourished. With the increase in population and discovery of trade routes and sea routes, markets for the products were widened. Production was increased and division of labour was extended further. Even at that time peasants and artisans were the owners of the means of production. It signifies that farmers and artisans had their own tools and could supply capital for production. But the demand for the products increased so much that the artisans and farmers could not meet the entire demand. The merchants availed themselves of this opportunity. They supplied the capital and other factors to the farmers and artisans and got the commodities produced by them. With these commodities they could meet demand of the market. In this way, the peasants and artisans ceased to be the owners of the factors of production. The merchants became the owners of these factors and they began to supply capital for the production.

After the industrial revolution newer and newer machines were found out. A radical change was brought about in human living. Transport was developed. Different modes of transport like railways, roadways, waterways and airways were developed. All these modes of transport shortened the distances between the countries. International trade and commerce began. The self-sufficient village economy was shattered, giant industrial concerns were established. Standard of living in general was improved. In many countries feudalism disappeared and capitalism or commercialism set in.

In modern times a particular business system has been developed. The enterprises in the primary and secondary sectors that produce various commodities are known as industrial enterprises. Their main

function is to manufacture commodities. But the manufactured commodities are to be supplied to the consumers. Certain enterprises are engaged in the distributive process. They are called commercial enterprises. Wholesale and retail enterprises are commercial enterprises engaged in the distribution of commodities. In other words, industrial concerns manufacture commodities and sell them in large quantities to wholesalers. Wholesale traders sell them to retailers who sell in small quantities directly to the consumers. These wholesalers and retailers are called middlemen. Still there are certain service enterprises which sell out their services so that production and distribution functions can be performed smoothly. These services are—transporting, warehousing, insuring, banking, packing, advertising etc.

QUESTIONS

Essay type

1. Define business in simple terms. Explain its basic features. [H. S. 1978]
   [Ans What is business ? Common features of business.]
2. What is business ? Classify business activity.
   [Ans. What is business ? Classification of business activities.]
3. Business activities are divided into industry and commerce. Discuss.
   [Ans. Classification of business activities.]
4. Show the inter-relationship and inter-dependence of Trade, Industry and Commerce.
   [Ans. Inter-relation of Trade, Industry and Commerce.]
5. What are meant by Industry. Trade and Commerce ? Explain how they constitute interdependent parts of a unified total system. Illustrate your answer by reference to movement of a consumer product from producer to the hands of the consumer. [H. S. 1978]
   [Ans. Inter-relationship of trade, industry and commerce—Inter-relationship of Trade, Industry and Commerce makes a total system.]
6. Classify Industry and discuss its dependence on commerce.
   [Ans. Classification of business activities—(only Industry)—Inter-relation of Trade, Industry and Commerce.]
7. What are the basic common features of business enterprises.
   [Ans. Common features of Business.]

8. Business has two aspects—personal and social. Discuss.
[Ans. Personal and impersonal aspects—Profit and Service motive of business.]

9. What are the personal and impersonal aspects of business ?
[Ans. Personal and Impersonal aspects.]

10. What are the multiple objectives of business ?
[Ans. Multiple objectives of business undertaking and balancing.]

11. (a) Distinguish among local, national and international business with suitable examples.
(b) Write an explanatory note on national and international interdependence through such business. [H. S. 1979]
[Ans. Local, national and international business—Interdependence and co-operation through business.]

12. Discuss the contribution of Industry, Trade and Commerce to domestic output and employment in present day India.
[Ans. Significance of business activities in domestic output and employment.]

13. (a) Enumerate the multiple objectives of a large business enterprise.
(b) On what other major branches of knowledge or skill business is dependent in modern times [H. S. 1979]
[Ans. Multiple objectives of business undertaking and balancing—Dependence on other branches of knowledge or skill.]

14. With reference to the business units of your locality identify some features which are common in all of them.
[Specimen question]
[Ans. Common features of Business.]

15. What are the diverse activities of business undertaking ? How are those activities of business organized and managed ? On what other disciplines does a businessman depend for effective operation of diverse activities.
[Ans. Diverse activities or operations of a business undertaking.]

16. What are the activities of a business enterprise ? How are these activities harmonized ?
[Ans. Diverse activities or operations of a business undertaking—Specialisation and harmonization of diverse activities or operations.]

17. Enumerate the major departmental activities in a business undertaking. Explain the importance of specialisation and harmonization of such activities. [H. S. 1978]
18. Elucidate the separate entity of a business undertaking from the promoter businessman or its manager with example from your experience. [H. S. 1978]
[Ans. Separate Entity of Business enterprise.]
19. What are the important principles of business undertaking? Are these principles applied in all types of business undertakings?
[Ans. Principles of business undertaking as general guides and application in practice.]
20. Elucidate the following statement with suitable examples—Economy is a segment of society and business a constituent of economy. [H. S. 1978]
[Ans. Business, Economy and Society.]
21. What are the social responsibilities of business?
[Ans. Social Responsibilities of Business.]
22. (a) What is meant by social responsibility of business?
(b) Indicate how business is responsible to different sections of society? [H. S. 1979]
[Ans. Social Responsibilities of Business.]
23. If profit is not the sole objective of a business undertaking. What other objectives are to be kept in view in modern times?
[Ans. Personal and Impersonal Aspects—Impersonal aspect only.]
24. What is meant by business environment? Indicate business environment in India.
[Ans. Business Environment in India.]
25. What is specialization? What are its advantages and disadvantages?
[Ans. Specialization—Advantages—Disadvantages.]

Short answer type

1. Write the functional definition of business.
[Ans. What is business—3rd and last Paras.]
2. What is local business? What are its features? Give a few examples of local business.
[Ans. Local, National and International business—local business only.]

3. What is National business ? What are its features. Give a few examples of national business.
[Ans. Local, National and International business—National business only]
4. What is International business ? What are its features ?
[Ans. Local, National and International business—International business only]
5. (a) What is Industry ? What utility it produces ? What products it produces ?
[Ans. Classification of Business Activities—Industry only]
6. What is commerce ? Give a few examples of commercial activities.
[Ans. Commerce.]
7. What is Specialization ? Classify it.
[Ans. Specialization—Simple and complex]
8. What is Trade ? Classify Trade.
[Ans. Inter relation of Trade, Industry and Commerce—4th, 6th, 7th, 8th, 9th and last Paras]
9. Inter relationship of trade, industry and commerce makes business a total system. Discuss with an example.
[Ans. Inter relationship of Trade, industry and commerce makes business a total system.]
10. Name the census classification in broad groups of working population in India and indicate which groups may be taken to be engaged in business. [Specimen Questions]
[Ans. Significance of business activities in Domestic output and employment—last two Paras]
11. Classify business undertaking and give examples of each.
[Ans. Classification of business enterprises]
12. What is the prime motive of business ? Under what grounds a businessman can claim it ?
[Ans. Multiple objectives of business undertaking and balancing—2nd and 4th paras.]
13. What is Management ? What are the functions of management ?
[Ans. Organization and Management of Specialised operation.]
14. What is Organization ? What steps are necessary for building up Organization ?
[Ans. Organization and Management of Specialised operation.]

15. State the different types of authority relationship and briefly explain them with examples.
[Ans. Organization and Management of specialised operation]
16. What do you mean by society ? Show the inter relationship of economy and society.
[Ans. Business Economy and Society.]
17. What is economy ? Show the inter relationship of economy and business.
[Ans. Business Economy and Society.]
18. What are the social rights and obligations of business ?
[Ans. Social responsibilities of Business First three paras.]
19. To which interested groups of the society, business is responsible and why ?
[Ans. Social Responsibilities—5th and last Paras.]
20. What business system did develop after industrial revolution ?
[Ans. Business System—2nd para.]
21. State the business system developed after the discovery of agriculture.
[Ans. Business system—First para.]
22. State the business system that has been developed in modern times.
[Ans. Business system—last para]

Objective Type

1. Out of the following list of persons engaged in different creative functions in society, specify those who are in business—College Lecturer, Hospital Nurse, Grocery shop keeper, Aircraft pilot, Agro-implements Repairer, District magistrate, Retail cloth Trader, Bus owner, Land agent, Colliery owner, Publisher of Journal, Hawker, Bank Manager. [H. S. 1978]
2. Out of the following list of persons engaged in various activities specify those who are in business—Doctor in private practice, Laundry owner, Sub-divisional Officer, Taxi owner, Private tutor, Gambler, Share broker, Football coach, Factory owner, Teacher in Art school, Hosiery manufacturer, Insurance agent, Tea exporter. [H. S. 1979]
3. Out of the following list of institutions specify those which are business enterprises—Calcutta University, Nursing Home, Cinema Hall, Tata Iron Steel Co. Ltd., Indian Oil Corporation, Ration shop, Calcutta State Transport, Calcutta Electric Supply Corporation, Calcutta Corporation, Jute Mill, Share

broker firm, Callcutta Stock Exchange, Hotel, Restaurant, Life Insurance Corporation, Indian railways.

4. What is the primary motive of business ?
5. What are the functions of an entrepreneur ?
6. Give a few examples of local business.
7. Give a few examples of National business.
8. Inter dependence is necessary for business development. Give an example.
9. Give three examples each of Genetic, Extractive, Construction and Manufacturing industries.
10. What are analytical and synthetical industries ? Give an example of each.
11. Which activities are called Commercial activities ?
12. Which enterprises are called service enterprises ? Give three examples of each.
13. How many sectors are there in every economic system ? What are they ? Give example of each sector.
14. A person buys a building for his own living but finding it unsuitable for living he sells it. Is it business ?
15. From the following list specify those which are industry and those which are commerce—
    (a) Insurance ; (b) Fish Catching ; (c) Wood collection ; (d) Weaving of cloth ; (e) Preservation of potato in cold storage ; (f) Retail Business ; (g) Handbill distribution ; (h) Manufacturing of ornaments ; (i) Electricity generation ; (j) Building construction.

CHAPTER 2

BUSINESS PROMOTION

Why does a man enter into business ?

In modern times men earn their living in various ways. Some are engaged as professionals like medical practitioner, pleader, accountant, teacher etc. Some become employees of business firms and earn their living. Still others establish business firms and earn their livelihood as businessman.

Man enters into business in two ways, namely, as an owner or as an employee. In both the cases risks are involved. If a businessman sustains losses year after year, he may lose capital he has invested in the business. On the other hand, an employee may lose his job. Of course, an employee is not required to undertake so much risk as a businessman assumes. A businessman undertakes risks for various reasons. At the time of entering into business he must study the present position of the market. He must also carefully study its future trends. Then he makes various decisions in respect of his business depending on the present and future trends of the market conditions. But his forecasting may not be correct. This is owing to the fact that market conditions are constantly changing. He may not sell the expected quantity at the expected price. He may not also buy his merchandise at the suitable price. Or he may be required to buy materials and machinery at more than the expected price. This increases the cost of production or cost of saleable goods. If the market price is not increased, increasing cost may decrease the rate of profit. In other words, he may not make the expected profit. He may also sustain loss. For all these reasons a businessman is required to assume risks in the business.

Since various risks are associated with the business, youngmen of our country do not like to enter into business as owner, Besides, there are rise and fall, romance, monotony, expectation and despair, ecstasy and fear in the business. Many of us cannot adjust with these changing mental conditions. On the other hand, as an employee of a firm a man is not required to undertake so much risk. If he can show his skill, he is assured of the means of his livelihood. This has prompted many of our countrymen to enter into business as employee instead of as owner.

Besides, social status of a man in our society is dependent on occupation. In fact, there is little dignity of labour. Manager of a business firm has higher social status than that of a businessman. A stock broker dealing in share or a majority shareholder of a company does not enjoy that social status a managing director enjoys ; of course, a big businessman enjoys social status. At present, small tradesmen are gradually being recognised in the society. This has induced many to enter into business.

A man normally enters into business for the following reasons—

(1) **Earning Livelihood** We have noted that man enters into business for earning his living. Social men earn their living on various ways. Earning livelihood by means of doing business is one of such. Many, of course, earn their living by joining the business firms as employees. Many of us enter into business for earning more than what can be expected from other occupations. Still many are doggedly contented with their trades as they could not show their mettle in other occupations or that they could not get satisfactory jobs.

(2) **Profit Making** A businessman expects fair return on capital he has invested in the business. Profit is the return on capital. He must get more profit than what he expects on his investment in other pursuits. Otherwise it will not be profitable to invest in business. If he gets 10% interest in other pursuits, the business must offer him at least 12% profit. I.e. he expects not only the interest on capital he has invested in the business but something more for he undertakes tremendous risk in the business. In many cases, of course, he is contented himself with lesser amount of profit. Even he is to sustain loss.

(3) **Power and Prestige** Big businessmen are honoured in the society. They have great social recognition. Every trader wants to be a big businessman for in that case he acquires power and prestige in the society. Tatas and Birlas have gained enormous power and prestige in our country. Big businessman also wields tremendous economic power. That is why, every small trader tries relentlessly to become big so that he can acquire power and prestige of a big businessman. Social power and prestige, therefore, induces many to enter into business.

(4) **Leadership** Big businessmen provide leadership in the business world. Businessmen form trade associations and chambers of commerce for the protection of their business interest. And a big

businessman is selected as a president of such a trade association or chamber of commerce. Small trade-folks do their business under the leadership of a chamber of commerce or a big businessman. But business leadership ultimately culminates into social leadership. In other words, business leader becomes a social leader.

(5) **Wealth Accumulation**—Many enter into business for the purpose of accumulating wealth. Profit of the business not only helps capital formation but also wealth accumulation If the proprietor of a firm does not take the entire profit, a part of it remains invested in the business as capital. This capital again makes profit and in this way capital accumulation makes a small scale business a large scale one. In the large scale business more wealth is accumulated. A big businessman in this way becomes rich and wealthy.

(6) **Service Motive**—Though private enterprises are guided by the profit motive, they also look to the needs and aspirations of their customers. They also do business with service motive. On the other hand, profit making is not the primary motive of the government enterprises. Government enters into business for rendering services to the nation. In other words, government undertakings are established not for making profit but for realising certain national objectives.

(7) **Other Reasons**—There are other reasons which induce a man to enter into business. Members of a business family are inclined to enter into business. They do not like to accept jobs elsewhere. They join their family business. Secondly, many people regard business as the way of independent living. They feel humiliating to become employees of a business firm. So they enter into business thinking that business is a prestigious livelihood. Lastly, government is now providing various facilities to small scale enterprises for fostering self employment. It undertakes the policy of the development of cottage and small scale industry for removing unemployment problem. Many unemployed youngmen enter into business for availing themselves of the business opportunities provided by the Government.

Man enters into Business in what capacity

We have already noted that a man can enter into business in two ways, namely, as an owner or as an employee. If he wants to enter into business as an owner, either he has to buy an old concern or he has to promote a new enterprise. Any way, a man enters into business in the following capacities—

(a) As a sole-proprietor—Sometimes, a man enters into business by promoting sole-proprietorship business. In that case he supplies the entire capital of the business. He undertakes also all the risks of the business. Of course, he enjoys the entire profit of the business. He does not share the profit with any one.

(b) As a Partner—He can also enter into a partnership business and can become a partner. He can also promote a partnership business. In that case he has to enter into a partnership agreement. What amount he is to supply as capital, what will be his share of profit, what he will do in the business, that is, what will be his managerial responsibility, whether he will get salary—all these are determined according to the partnership agreement.

(c) As a member of a Hindu Joint Family Business—A man enters into a joint family business for his birth in a family which happens to own a business.

(d) As a Pomoter or shareholder of a Joint Stock Company—A person can enter into a company business as a promoter or as a shareholder. If he joins it as a promoter, he has to undertake along with others all the responsibilities of promoting a business. He can also join the company as a shareholder. In that case he cannot participate actively in the company business. He is to be elected as a director for active participation. For shareholders cannot participate in the management of a company business. He simply elects directors from amongst themselves.

(e) As a member of a Co-operative Association—A person can also enter into business by being a member of a co-operative association. He may be a promoter-member or he may be simply a member by buying shares of the association.

(f) As a co-promoter of a Joint Sector Undertaking—Sometimes an individual may join a business as a co-promoter along with the government. A joint sector undertaking is a government-individual joint deal.

Meaning of Promotion of Business Enterprise

When an entrepreneur gives shape to his business ideas, it is known as business promotion. It means that before starting a business the entrepreneur must explore a business opportunity. It does not signify that every time a new opportunity is to be found out The existing opportunity can be expanded or utilised to the maximum

extent. This way of establishing business is also known as business promotion. Therefore, business promotion signifies—(a) establishment of new unit (b) expansion of old unit or (c) establishment of a new undertaking by amalgamation of two or more old units.

Sole-proprietorship concern may be expanded to form partnership firm. Similarly, partnership firm may be established as a private limited company. Likewise, a private limited company may be converted into a public limited company.

Investigation about Business Promotion

Whatever may be the way of promoting business that is, by exploring new ideas, or by utilising existing opportunities, promoter is to investigate and ascertain the following carefully—

(1) **Interest and Ability**—First the businessman must be interested in the business which he is going to promote. Unless he has the will, initiative and enterprise to use fully the particular business opportunity he cannot promote any business. Secondly, he should have adequate knowledge about the business. If he has adequate knowledge about the business, he can ascertain whether he has got ability to start and manage the business. He must have ability and proficiency to give shape to the particular business opportunity. Sometimes, his ability and proficiency make him interested in promoting a business venture. In the actual practice it is very often found that a trader has so much business intelligence and acumen that he shows proficiency in promoting and managing a business venture even though he has no proper knowledge about the business.

(2) **Capital Requirement**—Then it is to be determined what amount of capital is required for the business that has been explored or for utilising fully any existing business opportunity. After estimation of capital requirement, the businessman has to ascertain whether he has got such an amount of capital or whether he will be able to procure such an amount of capital from different sources. Amount of capital requirement is dependent on the nature and size of the business.

(3) **Raising of capital**—If he cannot provide entire capital from his his own savings, businessman is to take decision from which sources he will be able to procure capital for the business. Sources of capital raising depend on the structural form of business. A public limited company gets capital by issuing shares and debentures to the public. But a partnership or a sole-proprietorship firm secures capital from friends, relatives or from commercial banks.

(4) **Means of Procuring Factors**—What different types of factors are necessary, at what quantities and from where they are to be procured—the promoter must assure himself about all these matters. Promoter or entrepreneur is himself a factor. So he must also ascertain whether he will be able to supply the entire amount of capital necessary for the business. If not, he should convince other entrepreneurs so that they may join him in the business. The number of entrepreneur is dependent on the structural form of business. In a sole trading concern there is one, in partnership and private limited company the minimum is two and in the public limited and co-operative assocation the minimum number must be seven and ten respectively.

(5) **Social objective**—Whatever may be the business, a businessman is required to fulfil certain social obligations. Again, a trader can also help the state to realise its national objectives by means of promoting business enterprises. Public enterprises are established for the purpose of achieving national objectives.

Steps in Promoting a Business Enterprise

An entrepreneur has to take certain steps for promoting a business unit. And for that purpose he performs certain functions.

The following are the steps involved in promoting a business—

(1) **Choice of the Business :** The first step is the selection of business. A new business opportunity can be found out. A new machine or any producers goods or consumption goods may be produced and sold in the market. A new commercial enterprise may be established by discovering a new opportunity of distributing or supplying goods or services in the market. A new enterprise may also be established utilising the existing business opportunity. In other words, if certain production goods or consumption-goods are not produced and supplied to the market according to the demand, that is, if they are in short supply, a new enterprise may be promoted for the production and distribution of such commodities. Again, many establish particular enterprises with the idea that a greater amount of profit can be earned by promoting such businesses.

(2) **Investigation and Planning :** After the selection of the business the promoter has to investigate about the business and prepare a comprehensive plan. Business objectives are to be determined considering carefully its future possibilities. What is the present condition in the market, what is its future trend, what is the demand condi-

tion of the product, whether it is to be sold in the local market or it can be sold through out the country or whether it can be exported—all these are to be investigated. Investigation should also find out what would be its production cost, what amount of capital is to be invested, what would be the rate of profit etc. Moreover, if the business is an industrial concern, it is to be inquired whether raw materials are available within the country or they are to be imported from the foreign countries ; whether power, skilled labour, technologists and expert managers are available. After investigation of all these if a purposeful plan is prepared, the promoter will find no difficulty in starting the business.

(3) **Size of the Business Unit :** After investigation, the size of the business unit is to be determined. It means whether it would be large, medium or small scale business. If the product the entrepreneur is to deal in has world wide demand, a large business unit may be established to secure economies of large scale production. It means that it can buy raw materials at a cheaper rate, it can enjoy concession from the transport company, it can afford to appoint expert managers etc. All these advantages of large scale business would reduce production cost and increase profit. Moreover, largeness of business enterprise is dependent on the availability of adequate amount of capital. On the other hand, if the demand of the product is restricted to the local market, it should be organised on a small scale. Again, if the business is to produce artistic goods or to satisfy individual taste and fashion, it should also be established as a small scale business.

(4) **Form of Organisation :** Next step is to determine whether the business is to be established as a sole-proprietorship, partnership, private limited or a public limited company. A small business may be formed as a sole-proprietorship business since its capital and risk are small. A partnership firm can manage a medium scale business. But where in the case of medium scale business risk is high, a private limited company can be established because in a limited company liability of shareholders is limited. When the business is orgainsed on a large scale, it should take the form of a public limited company.

(5) **Capital Requirement and Raising of Capital :** After considering all aspects of the business, the promoter is to determine the amount of capital to be invested in the business. If a lesser amount of capital is invested, it cannot buy necessary things. It cannot pay

its creditors timely and so the reputation of the business will be undermined. On the other hand, if more amount is invested than what can be profitably employed in the business, profit of the business will be depressed. The amount of capital that is to be invested in the business is dependent on the volume of production or purchase and sale. Of course, where value of the product is high, even for a smaller production a greater amount of capital is necessary.

Secondly, sources of raising capital are also to be determined. Two types of capital are normally invested in the business, namely, owned capital and borrowed capital. Proprietor himself supplies the owned capital. Capital which is borrowed from various sources is borrowed capital. In the sole-proprietorship business capital is supplied by the sole-proprietor. But in partnership partners contribute the owned capital. In a limited company capital is procured by selling shares to the public. On the other hand, borrowed capital is procured from banks, investment companies and finance corporations.

(6) Location : The next step is to determine the location of the business enterprise. Location of the enterprise is very important for the profitability of the business is very much dependent on its suitable location. The enterprise is to be located in a place where raw materials, power, skilled labour etc are available. Nearness to market, invigorating climate and availability of transport are again other factors that influence location of an enterprise. Of course nature of industry determines its own location. The manufacturing industry which uses bulky and weight losing materials or power which lose much of their weights when converted into finished products is located near the raw material or power producing centres. For example, iron and steel industry. Otherwise, increase in transport cost for carrying the materials from the distant places will increase the production cost. On the other hand, the manufacturing industry which utilises light materials which do not lose much of their weights when they are made finished products is located either near the market or raw material producing centre. For example, cotton textile industry.

(7) Selection of Working and Managerial Personnel : Both skilled and unskilled workers are necessary in a business enterprise. Problem does not arise in the case of unskilled worker for they are ubiquitous. Manifold problems arise for securing skilled workers. If modern city facilities are provided in the factory site and better working conditions are ensured, skilled workers will come and live nearby. This will help the enterprise to secure skilled men.

Moreover, skilled managers are to be appointed for smooth running of the business. Different specialist-managers have to be entrusted with different specialised functions of the enterprise. For example, purchase-manager to look after purchases of materials, machinery etc., Sales-manager to conduct selling operation. Accountant to record business transactions etc. A chief executive is appointed to co-ordinate the efforts of various managers.

(8) Procuring and Assembling of Factors : After this, factory building and office premises are to be constructed or rented, various elements have to be procured for the starting of the business and so the production. Men, money, materials, machinery all have to be assembled carefully. Plants are to be laid out scientifically in the factory and so also an office-layout is to be planned carefully.

(9) Organization Structure : An organization structure has also to be built up for efficient management of the different functions of the business. For building up organization structure different functions are to be divided between the different managers and their activities are to be co-ordinated so that their united efforts may achieve enterprise objectives. Various functional departments are to be created and entrusted to different managers. Purchase Dept. Sales Dept. Accounts Dept. etc. are to be created and entrusted to Purchase-manager, Sale-manager, Accountant etc. Every manager is to be given specific responsibility and necessary authority to carry out that responsibility.

(10) Registration : Finally, necessary documents are to be submitted to the relevant authority for registration of the business. Registration is not necessary in the case of sole-proprietorship business. It is also not compulsory for partnership business. But if a partnership business is registered, it can enjoy certain privileges. Registration is compulsory in the case of a joint stock company. It cannot start its business unless it is registered. If the business is established as a joint stock company, its promoters have to prepare two important documents like Memorandum of Association and Articles of Association. Then they have to be furnished to the Registrar of joint stock companies and it has to observe certain other legal formalities for getting the business registered.

Functions of Promoter

The person or institution that promotes and establishes new business enterprise or expands an old and established enterprise or

builds up a new enterprise by uniting two or more enterprises is known as a promoter. It is entrepreneur who plays the role of a promoter. Normally, owner of a business promotes it. When it is established he undertakes the responsibility of management. In western countries there is a class of promoters whose business is simply to promote new enterprises. After promotion they sell out their business enterprises. They are expert promoters and give shape to new business ideas.

The functions which a promoter has to perform for promoting a business are as follows—

1. Exploring new ideas of business

Firstly, a promoter has to explore newer and newer business ideas. Sometimes, he is to undertake market research for discovering new business ideas. At present, the preliminary step of business promotion is market research. It means the scientific determination as to which product is now demanded in the market or whether demand for a particular product can be created in the market. The result of the research helps the promoter to take decision in respect of the business promotion.

2. Investigating various aspects of business

After the selection of the business, promoter is to investigate about various aspects of business promotion. What will be the cost of production of the commodity, what amount of capital will be required, whether raw materials can be procured from the local areas or from other areas of the country or they are to be imported from the foreign countries, whether skilled workers are available—all these are investigated by the promoter. After investigation the promoter determines the objective of business and makes plan accordingly.

3. Determining structural form of business

The promoter determines the structural form of business, that is, whether the business enterprise is to be established as a sole-proprietorship, partnership or as a joint stock company. The extent of demand for the product helps the determination of structural form of business.

4. Procuring capital

He is to procure capital and for that purpose he is to find out the sources of capital. Promoter invests his own capital and procures borrowed capital from commercial banks, investment campanies etc.

5. **Locating business enterprise**

Promoter takes the decision in respect of the location of the enterprise. After carefully considering as to where maximum advantages for the production and selling of the product can be had the promoter selects the place where the enterprise is to be located.

6. **Appointing specialist managers**

It is promoter who appoints specialist managers in different departments. Then subordinates in various departments are appointed on the recommendation of the departmental managers.

7. **Procuring various other factors**

He procures various factors of the business for giving it a start. Men, money, materials, machinery are then obtained for production of the commodity.

8. **Building up organisation**

Promoter also undertakes the responsibility of building up the organization of the business. Different departments are created on the basis of functions and the management of each department is entrusted to a particular manager.

9. **Establishing connection with middlemen**

He is to arrange for the selling of the commodities and for that purpose he is to establish connection with middlemen. If the promoter is an intermediary, he is to establish connection with the producers.

10. **Getting business registered**

Finally, promoter is to get his business registered. If the business is a partnership concern, a partnership deed is to be prepared. If the business is a joint stock company, it is to be registered with the Registrar of joint stock companies and for that purpose two documents like Memorandum of Association and Articles of Association are to be prepared and submitted to the Registrar.

Questions

Essay Type

1. What are the reasons that lead a man to enter into business ?
   [Ans. Why does a man enter into business.]
2. What do you mean by Business Promotion ? What steps are taken by a businessman in promoting a business ?

[Ans. Meaning of Promotion of Business Enterprise—Steps in Promoting a Business Enterprise.]

3. What is meant by business promotion? Enumerate the steps in such promotion. [H. S. 1978]

[Ans. Meaning of Promotion of Business Enterprise—Steps in Promoting a Business Enterprise.]

4 (a) Enumerate the function of a promoter.

(b) In what different capacities you find people engaged in business? [H. S. 1979]

[Ans. Function of Promoter—Men enters into business in what capacity.]

Short Answer Type

1. Besides Profit making and livelihood what other factors lead a man to enter into business? [Specimen Question]

[Ans Why does a Man enter into Business except first two paras.]

2. Besides a promoter in what other capacities can a man enter into business?

[Ans. Why does a man enter into business.]

CHAPTER 3

CAPITAL, PROFIT AND TURNOVER OF CAPITAL

Definition of Capital

Man needs various things for the satisfaction of his wants. These things are procured from the nature. Varied things are procured from the nature, for example, agricultural products, minerals, aquatic and animal products etc. All these are called natural resources. But man cantnot satisfy all his wants simply by natural resources. He requires other products. He produces these other products by means of labour. Therefore, **the thing which is produced by means of labour, both physical and mental, and is used for further production is called capital. It is a produced means of production.**

Things which are used for satisfaction of human wants are called wealth in economics. Of course, all things are not wealth. A wealth must have four qualities, namely,—Utility, that is, capacity to satisfy human wants, (2) Scarcity or limited supply, (3) Transferable from one person to another and (4) Transferability of ownership. Raw materials, machinery, machine parts, fertile lands etc. are wealth. But water, soil, forest products, sunshine etc. are not wealth for their supply is not limited.

Wealth can not be produced without the natural help. Steel can be produced by procuring iron ore and coal from the nature. Similarly, fertile land is necessary for the production of agricultural products.

Capital is a wealth. So natural help is necessary for the production of capital. In other words, with the natural help and man's manual labour capital is produced and is utilised for further production. For example, coal, iron ore, manganese, limestone are extracted from the nature for the production of steel which is used for the manufacturing of machinery. Machines are used in the factory for producing various commodities. In this way, capital is used for the satisfaction of present needs and is used further for the satisfaction of future needs. Therefore, machine which is used as a capital is a saved up wealth and saved up labour.

Of the factors of production land and labour are original factors for they are not produced. Land includes all natural resources and labour is man's own prossession. But capital is not an original factor. For it is to be produced. Capital is, therefore, a produced factor.

Basing on the mode of its use wealth is classified as **Production Goods** and **Consumption Goods.** The goods which are used for further production are known as production goods. For example, machinery, steel, coal, furniture etc. which are utilised for the production of various other commodities are called production or capital goods. On the other hand, the goods which are used directly and not for further production are called consumption goods. Garments, paper, pencil etc. are directly consumed. Hence, they are consumption goods.

Nature of use determines whether a commodity is a producers' goods or consumption goods. Building, machinery, coal, furniture etc. when used for residential and domestic purposes are known as consumption goods. But when they are used in a factory, they are capital goods.

In business capital means money capital. That is the money which a business man invests in his business. If in a business an amount of Rs. 50,000 is invested, it is capital to a businessman. In economics it is known as **Money Capital.** Of course, businessman invests capital for buying capital goods which are utilised for the production of merchantable goods. In this way, businessman produces commodities and sells them in the market. He gets back certain amount of capital and invests it again.

Functions of Capital

Capital takes significant part in production. The main function of capital is production. From the following functions of capital we may know clearly the role of capital in production—

1. **It increases the efficiency of labour.** A labourer can produce more commodities with the help of a machine. It means that he can produce more with a machine than what he can do without it. A farmer can now produce more with the help of a tractor than what he could do with the animals in the past. In this way, capital increases the volume of production. As a result, total cost and average cost are reduced.

2. **It synchronises production and consumption.** Production is effected by capital. But in between production of commodities and selling them in the market much time is lapsed. So while producing the commodities a businessman can supply them in the market. In this way, capital helps the businessman to produce the commodities and supply them for consumption at the same time.

(3) **It maintains the flow of production**—The capital a businessman invests in business for production, he gets it back by selling the

products in the market. But if he waits until he gets back the capital, he must postpone his production. But businessman maintains the flow of production by buying raw materials and paying wages to the workers with the help of working capital. In a large scale business the flow of production can easily be maintained since a large amount of capital is invested. But in a small business production is sometimes stopped on account of the shortage of capital.

(4) **It increases the scope for the introduction of machinery by introducing the division of labour.** In business various functions have to be performed. Raw materials are to be procured, commodities are to be produced, workers and managers are to be appointed, finished products are to be properly stored, machines and various other assets have to be purchased. All these functions are entrusted to different managers and workers. Capital is necessary for buying raw material, machinery and other assets. Besides, when division of labour is extended to a great extent the work becomes so small and routine-type that it can be done by the machinery. Machine increases production, reduces cost and burden of labourers.

(5) **It helps the innovation of new machinery and products.** Capital supplies the necessary amount for the research that is undertaken for innovating new machinery and product. New machine improves quality and increases the quantity of production. New product increases the demand for it in the market.

(6) **It supplies machinery, machine tools and raw materials to the workers.** A worker can utilise his initiative and skill to the fullest extent if he is supplied with machinery, machine tools and raw materials. He cannot exercise his skill if he is not supplied with machinery and other things.

Classification of Capital

Economists differ in respect of the classification of capital. They have given different names to different resources that are used as capital. It is broadly classified as **Personal capital, Social capital** and **Business Capital.**

1. **Personal Capital :** Capital is a wealth which earns income. A man earns income from his wealth. When a man owns wealth, it becomes his **personal capital.** He buys company share and debenture or he may keep his money as deposit in a bank. All these are known as personal capital. For he gets dividend for company share, he receives interest from debenture and from deposit account.

2. **Social Capital :** The money which a government invests for the economic development of the country is known as **Social Capital.** Government earns revenue (income) from the capital which is used for the establishment of schools, colleges, hospitals, for construction of roads, bridges etc. All these constitute social capital. Since personal and business capitals lead also to economic development, they can also be called social capital.

3. **Business Capital**—Businessman makes profit by investing capital in the business. The money which a businessman invests in his business is called **Business Capital.**. Money capital is the capital in business. It is classified as—owned capital, borrowed capital, fixed capital and working capital.

(A) **Owned Capital : Initially businessman invests his personal saving as capital in the business. This is called owned capital.** Sole proprietor supplies first capital in his business. Similarly, partners supply capital initially in the partnership business. Shareholders contribute capital to their company by purchasing shares of the company. Besides this initial capital, the part of the profit which is not distributed among the proprietors but kept aside and invested in the business is also known as owned capital. This method of investment of a part of profit as capital in the business is called 'Ploughing back of profit'. Sometimes, a part of profit is transferred to a reserve fund from the profit and loss account. This is done for strenghthening the financial position of the business. Reserve fund also constitutes owned capital. The features of owned sapital are—(a) Profit is the return on owned capital. Sole-trader takes the profit from his business. Partners share the profit of the firm and shareholders get the profit as dividend from the company. (b) Whenever the business makes profit, it is distributed among the proprietors. If the enterprise does not make any profit, the owners of the business do not get anything. (c) Proprietors cannot get back their capital until their business is closed down.

(B) **Borrowed capital :** If the proprietor is not in a position to supply the entire amount of capital required in the business, he borrows it from various agencies. **The capital which is borrowed from outside is called Borrowed capital or Loan capital.** Businessman takes short term and longterm loans and advances from commercial banks, finance corporations etc. A public limited company procures loan from the public by issuing debentures or bonds to them. Sometimes, partners also provide loans to their firm. The characteristics of borrowed

capital are—(a) Interest is the return on borrowed capital. (b) Every year the enterprise has to pay interest on loan until the loan is paid back. This is the fixed obligation of the business firm. (c) The loan or the borrowed capital can be paid back at any time. (d) The loan givers cannot take part in the management of the business.

(C) Fixed capital : The amount of capital which is permanently invested or blocked into the business is known as Fixed capital. This permanent capital is necessary for acquiring fixed assets of the business, namely, land, buildings, plant and machinery, furniture etc. Not only fixed assets but other types of long term investments are also fixed in nature. Sometimes, a company takes long term loan by mortgaging the property for financing its expansion or development. This loan on mortgage also represents fixed capital.

The amount of fixed capital required in a business depends on the nature of the business and/or volume or technique of production. In steel industry, railways or electricity concerns fixed capital requirement is very high as they require more capital for establishment of factories, construction of railroads and for purchasing of machinery. But in commercial concerns chiefly engaged in marketing operation, the requirement of fixed capital is not very high. The amount of fixed capital requirement is also dependent on the nature of industry. In the case of integrated industry manufacturing different parts and also assembling them to get finished products, a greater amount of fixed capital is required. On the other hand, in the case of partially integrated industry which only assembles different parts purchased from manufacturing concerns, a relatively small amount is necessary. The mode of acquiring assets is also responsible for determining fixed capital. If the fixed assets are purchased on instalments, immediate requirement of capital is not very high although total requirement remains the same.

(D) Working Capital : Besides buying fixed assets, a business firm is also required to invest in current assets. A manufacturing concern is required to purchase raw materials and to keep stocks of raw-materials, partly finished products and finished products. It must also pay for wages and salaries and for other necessary expenditures for converting rawmaterials into finished products. A firm is not in a position always to sell its finished products in cash. For the sake of increasing business it sells its products on credit and hence, sometimes, receives bill receivables and certain amount always remains due from different debtors. All these namely, stocks of materials, partly finished and finished products, bill receivables, sundry debtors etc. represent

the current assets of the firm. But these current assets are circulating in the business. A businessman purchases rawmaterials, pays for wages and salaries and other expenditures, processes them into finished products and sells them in the markets and so converts them again into cash. Bill receivables, sundry debtors, stock of materials are converted into cash and this cash is again invested in the business for the same purposes. Moreover, a certain amount of cash is always kept as cash in hand or cash at bank for meeting day to day or unforeseen expenses.

On the other hand, in the balance sheet of a firm we always find certain current liabilities, namely, bills payable, sundry creditors, bank overdraft etc. The working capital is the excess of current assests over current liabilities. In other words, it can be explained as **Working Capital = Current Assets Current Liabilities.**

A large part of the Working Capital is short term capital but a portion of it is also fixed in nature. Certain portion of the working capital is permanently blocked in keeping stocks of rawmaterials and finished products.

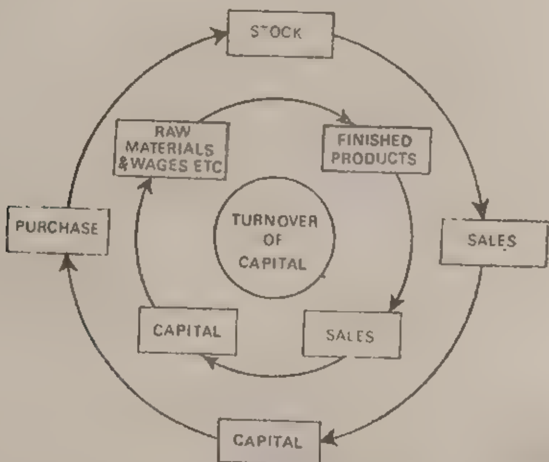
A firm must have adequate working capital to pay for its purchases and other costs of sales. If sufficient amount of working capital is not provided, the firm may not be in a position to meet its liabilities and thereby may lose reputation or credit-worthiness in the market.

Turnover of Capital

Repeated conversion of current assets into cash is known as Turnover of Capital. The total amount of capital which is invested in the business is used for buying fixed assets and keeping current assests. In other words, the entire amount of capital is invested as fixed capital and working capital. The working capital is used for buying rawmaterials and for defraying necessary expenditures for conversion of rawmaterials into finished products. Necessary expenditures include salaries and wages payable to the workers and other expenses required for buying and selling of products. Businessman gets back the invested working capital by selling the manufactured products in the market. In this way, the businessman goes on selling his products again and again by employing the same amount of working capital. This is Turnover of capital. Suppose, a businessman has started his business with Rs. 10,000 as capital. Out of this, he has bought fixed assets of Rs. 7000 and the remaining Rs. 3000 he has kept as working capital. The working capital of Rs. 3000 he has used for purchasing rawmaterials, paying wages to the workers and meeting necessary expenditures. Then he sells his commodities in the market and gets back,

say, Rs, 4000. He keeps Rs. 1000 as his profit and invests again Rs. 3000 for the same purposes. Again he sells his commodities and gets back Rs. 4000. In this way, he can effect a sales volume of, say, Rs. 24000 during the year by employing the same amount, that is, Rs. 3000 as working capital.

Turnover of capital can also be expressed as the ratio of current assets to total sales. In the foregoing example, the ratio of current assets to total sales is 3000 : 24000, that is 1 : 8. It means that the working capital of Rs. 3000, has been turned over 8 times during the year.



Generally, same amount of working capital is not invested in the business every time or every month. In some months more capital is invested and in others a lesser amount is sufficient. It all depends on market conditions. Besides, he may not get back the entire amount of capital by selling his products. He may not realise certain amount due from his debtors during a year. Moreover, a part of goods may remain unsold. This is kept as unsold stock. For all these reasons a certain amount of working capital he may not get back as it is blocked in the business. That is why, a businessman is required to introduce further capital in the business. In this case turnover of capital is determined by finding out the average capital employed in a month. If the cost of sales is divided by average capital, we get the number of times the capital has been turned over during the year, that is—

$$\frac{\text{Cost of Sales}}{\text{Average Capital}} = \text{Turnover of capital}$$

Cost of sales means the cost price of the goods that have been sold. If the goods costing Rs. 4000 are sold at Rs. 5000, then the cost price of the goods is Rs. 4000. Let us take one example. Suppose, in a business the following amounts have been employed per month—

January—Rs. 13,520, February—Rs. 10,250, March—Rs. 9240, April—Rs. 12,360, May—Rs. 11,310, June—Rs.9,500, July—Rs, 8000, August—Rs. 8450, September—Rs. 11,200, October—Rs. 6,500, November—Rs. 6320, December—Rs. 13,350. During the year the cost of sales is Rs. 50,000.

Now, the total capital invested during the year is Rs. 13520 +10250 +9240 + 12360 + 11310 +9500 +8000 + 8450 + 11200 + 6500 + 6320 +13,350 = Rs. 120,000. the average capital is Rs. 120,000 ÷ 12 =Rs. 10,000.

$$\text{Therefore, Turnover of Capital} = \frac{50,000}{10,000} = 5$$

It means the capital has been turned over 5 times during the year

Rapidity of Turnover

The rapid turnover of capital is dependent on the following—

(a) **Demand of the commodity :** The turnover of capital is dependent to a great extent on the demand for the product. If the commodity is such that it is always demanded in the market, then the goods can easily be sold. So capital can be turned over with much rapidity. The demand for motor car is very limited in the developing country like ours. Hence, it cannot be sold quite easily Hherefore, rapid turnover of capital is not practicable in the case of motor car. On the other hand, in a retail business since essential commodities required in every day life are sold, capital is turned over frequently. So a lesser amount of capital can do a greater volume of business.

(b) **Time Period of Manufacture**—Amount of working capital is also dependent on the length of time required for manufacturing. If the process of production is such that it requires a longer period to convert the rawmaterials into finished products, a greater amount of working capital is needed as a large amount remains blocked in production itself. Moreover, during the period of production price level may be changed requiring, therefore, more capital for purchase of raw materials and payment of wages. On the other hand, if the time required for production is very short, much capital is not necessary as while the production goes on, sales are being made and hence rotation of capital may become frequent.

(c) **Nature of Sales** : Nature of sale is an important factor for working capital determination. If sales can be made quickly or regularly or in other words, working assets can be turned over with much rapidity, more business can be done with a much less amount of capital. In the case of irregular or intermittent sales or turnover much capital is needed as the capital is blocked for a longer period in working assets like stocks of materials, finished products etc.

(d) **Terms of Purchase and Sale**—If the terms are such that purchases are made on credit while goods are sold on cash basis only, in that case a greater volume of business can be conducted with a small amount of capital. On the other hand, if purchases are made on cash and sales on credit, larger capital will be required.

(e) **Seasonal Variation in Sales**—There are certain seasonal industries which can sell products during certain months a year. Sales vary to a great extent from one season to another. In that case, the entire finished stock is kept in the off season and a larger amount of capital remains blocked. For seasonal variations in sales greater amount is needed. Hence, capital is turned over with lesser rapidity during few months a year.

(f) **Performance and Growth** : Smooth performance of all business functions leads to turnover of capital with much rapidity and rapid turnover paves the way for the growth of business. If the right policies in respect of production, sales, personnel etc. are followed, commodities can be produced at a lesser cost and sales can be effected quickly. Following right policies at the right time will cause frequent turnover of capital. And the expansion of the business is assured. In other words, all business functions are to be performed efficiently by making right plans and policies to bring about business success. This will bring about increase in sales, rapid turnover and expansion of the scale of operation.

Business Performance and Growth

Turnover of capital and business performance and growth are interdependent. If the business functions are done smoothly, capital is turned over frequently. Again rapid turnover of capital generates greater amount of profit and the growth of the business is assured. Rapidity of turnover, we have noted, is dependent to a great extent on the demand for the commodity. Essential consumption goods or general purpose small machinery can be sold quite easily. But the luxury goods cannot be sold quickly. For their demand is restricted among the richer class.

At present market research is undertaken long before the production of commodities or starting of the business. Through market research it is studied carefully which commodities are now demanded in the market. Which classes of consumers now demand those commodities. How many different types of substitutes of those commodities are available. The monthly income and tastes and fashions of the persons among whom the demand for the commodities is restricted. All these are observed in details. This type of market research helps to determine the mode and medium of advertisement and what information is to be supplied to the consumers. It also facilitates the determination of the sales policy of the enterprise. Goods are to be sold quickly so that capital can be turned over frequently and rapid turnover of capital is dependent on effective sales policy of the business enterprise. If all the commodities are sold for cash, businessman will, no doubt, get back the entire amount of capital and, that too, very quickly. Sometimes, he finds no other way but to sell his products on credit. In that case, a part of capital is blocked with the debtors. He must, therefore, realise the amount due from debtors as quickly as possible to effect quick turnover of capital. Very often sole selling agents or sole distributors are appointed in different areas in the market. Goods are sold to those agents and distributors for cash. In this way, quick sales and so frequent turnover of capital can be effected. On the other hand, a consistent production policy is to be followed so that goods can be produced at right quantity and at the right time. Moreover, goods can be kept ready in stock so that whenever they are demanded they can be supplied to the customers. This will help rapid conversion of materials into cash. Of course, all other functions of the enterprise are also to be performed efficiently to produce commodities at the right time and at right quantity. Besides, efficient and specialist-managers are to be appointed to look after different areas of management (Production, sales, finance, labour etc). Expert managers can procure quickly men, money, materials, machinery etc. and can get the commodities produced by the workers at the right time by placing the right men to the right jobs.

In this way, if production, purchase and sale are effected quickly and timely, capital can be turned over rapidly and so profits can be made frequently. For profits can be earned as many times as the capital is turned over. Of course, if there is no incidental loss. Let us take an example to express the concept clearly. Suppose, in a business, commodities of Rs 10,000 have been produced and they are sold out at Rs. 15,000. Therefore, the proprietor makes a profit of

5,000. He takes this profit and invests again in the business Rs 10,000. Again the goods are sold out at Rs 15,000. And again he makes a profit of Rs. 5,000. In this way, profit is earned whenever the capital is turned over. Sometimes capital along with profit is invested. In that case proprietor does not take the profit but invests it in the business as capital. In the above example, if the proprietor does not take Rs. 5,000 for profit, he can invest Rs. 15,000 as capital. He may get back Rs. 25,000 by selling the goods of Rs. 15,000, and this he can invest again. In this way he can increase his capital and thereby volume of production, purchases and sales. Increase in capital, production, purchase and sale signifies the expansion or growth of business. Small scale business, in this way, is converted into medium scale and then it grows into a large scale business. It reveals, therefore, that rapid turnover of capital leads to the expansion or growth of business.

Formation of capital

Various commodities are now produced for satisfaction of wants of men in the society. Normally, two types of commodities are produced, namely, production or capital goods and consumption goods. Capital goods are used for further production, consumption goods are used directly and not for further production. Capital goods are produced as a result of savings. Goods which are collected from nature are not used forthwith but they are converted into capital goods with the help of manual labour so that they can be utilised for further production. In this way, machinery, machine tools, machine parts are produced first and then they are used for further production. Production of capital goods is dependent on savings. Its production increases with the increase in savings. And production of other commodities is increased with the increase in the production of capital goods. Unless capital goods are produced with saved up resources and labour, it will not be possible to produce other commodities. Since in developing countries the rate of savings is very low, the rate of production of capital goods is also very low. Capital goods are imported from the foreign developed countries. As a result, foreign exchange which is necessary for the payment of import of capital goods may not be collected adequately by the export of raw materials and other resources.

Capital formation in a country is dependent on the following factors—

(1) **Propensity to Save**—Savings depend on propensity to save. Man saves by curtailing present consumption for various reasons. He saves for old age, for hazards of life that bring in financial trouble. He saves for providing higher education to the children, for their marriage and for their protection. Richer class saves for power, prestige and recognition in the society. Accumulation of wealth brings for him social power and prestige. Businessman saves so that a greater amount of capital can be invested in the business for the expansion of the business. Government policies, social environment, laws and regulations, immunity from nationalisation etc. rouse propensity to save among men. Of course, savings do not depend simply on propensity to save. It is also dependent on power to save and scope for investment.

(2) **Power to Save**—Power or ability to save depends on income. Ability to save increases with the increase in income. Poor people have little ability to save, for the income they earn is entirely spent for buying the essential commodities needed for everyday life. Power to save increases when the per capita income of the country increases. Therefore, higher per capita income increases the volume of total savings in the country. In the developing countries since the per capita income is very low, the rate of savings is also very low.

(3) **Opportunity to Invest**—People will not save though they have got ability and propensity to save unless there is the scope for investment. Though people save for various reasons, everybody wants to earn some income by investing somewhere the money they have saved. Saving is personal capital. So it can be utilised for earning income. If it is deposited in a bank, it can get interest. When somebody utilises his saving for buying company shares, he can earn dividend at the end of the year. If he buys debenture, he can earn interest. In this way, if there is the scope for investment, people will save, for they can earn income by investing their savings. When saving is deposited with a bank or utilised for buying company share and debenture, businessmen and industrialists can procure capital for production of capital goods and consumption goods. So greater the scope for investment, greater will be the rate of savings, and higher will be the production. For, businessman can procure greater amount of capital.

(4) **Savings in Business Enterprises**—The profit of the business enterprise is not entirely distributed among the proprietors. A part of it is saved and is re-invested in the business as capital. This is **business saving** and is known as **ploughing back of profits**. In every

business enterprise the saved part of the profit is transferred to a reserve fund for it strengthens the financial position of the business. Government enterprises also utilise the profits as capital in the business.

Sources of Raising capital

Sources of raising capital are dependent to a great extent on the structural form of business. For example—

(1) In the **Sole Proprietorship** business, capital is procured from the following sources—

(a) Proprietor's own capital.

(b) Loans and advances from commercial banks.

(2) **Partnership business** gets the capital from the sources as follows—

(c) Partners' own capital,

(d) Loan taken from a partner,

(e) Loans and advances from commercial banks.

(3) **Private limited campany** raises its capital from the following sources—

(f) By selling shares and debentures to friends, relatives, directors etc. It cannot sell shares and debentures to the public.

(g) Loans and advances from commercial banks, investment companies and finance corporation.

(h) Re-investment or Ploughing back of profits.

(4) **A Public limited company** raises the capital in the following ways—

(i) **Sale of Securities**—A public limited company can now issue two types of shares, namely, Preference share and Equity share. When a company makes profit, it pays dividend first to the preference shareholders. Any surplus remains after distribution of dividend to the preference shareholders, it is utilised for paying dividend to the equity shareholders. When a person buys a share of the company, he becomes a member of the company. Shareholders are the owners of the company.

A public limited company secures loans or borrowed capital by issuing debentures to the public. Debenture holders are the creditors of the company. They are not owners. Company pays interest on debenture every year. According to the Companies Act '56, company cannot pay back share money until the liquidation (dissolution) of the company. But it can pay back debenture money at any time.

(j) **Public Deposit**—Sometimes, a company accepts deposits directly from the public. Generally, deposits ranging from one to five years are accepted. It pays yearly or six monthly interest on such deposits. At present, restrictions have been imposed on commercial banks so that they cannot provide loans and advances liberally to the businessmen. That is why, companies are taking deposits directly from the public. The difficulty of this type of raising capital is that if for any reason, panick starts that the company is going to be liquidated, depositors will rush to the company and demand to pay back their deposits. In that case the company may find it difficult to continue and is forced to close down its business.

(k) **Loans from Commercial Banks**—Generally, commercial banks provide short-term loans and advances to the business enterprises. Companies take short-term loans and advances from banks and invest them in the business as working capital. Nowadays, banks underwrite shares and debentures of public companies to provide long term capital to the companies.

(l) **Government Loans**—Very often companies take loans directly from the Central or State Government. Until recently Government provided direct loans to the companies. At present, Government gives loans to the companies through Special Finance and Development Corporations. Several Special Finance and Development Corporations have now been established in our country. These are—Industrial Finance Corporation, Industrial Credit and Investment Corporation of India limited, Industrial Development Bank of India, State Financial Corporations etc. All these corporations get financial aid and loans from the Government for providing long-term loans and advances to the large companies.

(m) **Ploughing Back of Profits**—The whole amount of profit of a company is not distributed among the shareholders. A part of it is kept aside in a reserve fund. This undistributed profits or reserve fund is utilised in the business as capital. This is called ploughing back of profits. The advantage of this type of financing is that it has no fixed obligation. It is not required to pay interest or dividend for utilising reserve fund as capital. Sometimes, company issues shares out of the reserve fund to the shareholders instead of paying dividend in cash from it. This type of share is called **Bonus Share.** A company has to pay dividend on bonus share. Even then it does not incur any expenditure for this. In other cases, it has to pay broker-

age, underwriting commission, stamp duty etc., So re-investment of profit does not require any cost.

(n) **Foreign capital**—The present policy of the Government of India is to borrow money from the foreign countries. For the capital available within the country is not adequate for financing the industrial development of our country. Many foreign enterprises are now helping our industrial development by buying shares and debentures of Indian companies. Besides, World Bank and International Monetary Fund are providing loans and advances to Indian companies. Public sector undertakings are also inviting aid or loan from foreign countries for investment as capital.

(o) **Loans from Money-Lenders**—Business enterprises have to borrow money. Very often they borrow from money-lenders. In the past companies took loans from money-lenders. At present, companies do not find it necessary to borrow from money-lenders as many special finance and development corporations have been established for providing loans and advances to them. On the other hand, Reserve Bank now imposes restrictions on the activities of money-lenders. And so companies cannot take loans from them.

(5) **Co-operative Associations** raise capital by selling shares to their members. Besides, they take loans directly from the Government and co-operative banks. Commercial banks also provide loans and advances to co-operative associations. Sometimes, association accepts loans or deposits from their members.

(6) Members of the **Joint Hindu Family Business** invest their own capital in their business. They also re-invest the income they earn from their family properties. Besides, they can also take resort to commercial banks for short-term loans and advances.

Various Meanings of Profit

Every businessman or enterprise earns income from the business. Income is earned in the form of profit in the business. Excess of total income over total expenditure is called profit. In other words, any surplus income that remains after paying remuneration to the suppliers of factors of production like land, labour and capital is termed as profit. Owner of land receives rent as remuneration. Labourers are paid wages. Capitalist gets interest for supply of capital in the business. And **the remuneration that is paid to a businessman for organising and managing his business efficiently and for bearing risks and uncertainties is profit.**

In the business enterprise profit signifies net profit. At first **gross profit** of the business is determined. It is found out by deducting cost of sales from the sale proceeds and unsold stock. Then **net profit is** determined by deducting all administrative and distribution and selling expenses from the gross profit.

On the other hand, taxable profit is found out for paying income tax or corporation tax (income tax payable by a limited company). The net profit of the business which is calculated according to accounting principles is not taxable profit. It is determined according to the Income, Tax Act. **Taxable profit is the excess of profits and gains that are included under the head Income from Business, Profession and Vocation' over the expenditures and provisions allowable under the head.**

Income tax or corporation tax payable on the taxable profit is assessed according to the present tax-rate. **The amount of net profit that remains after deducting income tax from it is called distributable or Shareable Profit.**

Economists define profit both in the narrower and broader sense. According to Taussig, an American economist, it is a mixed and vexed income. It is a mixed income because various sources of income are included in it. It is vexed because economists opine differently about the sources of income that should be included within profit. **Defining profit in a narrow sense some economists point out, that it is the remuneration payable to the organiser of the business for bearing risks and uncertainties and it includes income for innovating new products, new technique of production and exploring new markets.** Some others define profit broadly as it is the excess of income over expenditure and is payable to the entrepreneur.

The sources of income which are included within profit are enumerated below—

(1) **Prices of Factors**—Sometimes proprietor supplies to his business raw materials, land, stock of goods, machinery, machine tools, money capital etc. So prices of these factors, that is, incomes for rent, interest etc. are included in profit.

(2) **Salary for Management**—Very often a businessman manages the affairs of his own business. He takes salary for the management of the business. He expects such an amount of salary which he can earn if he is employed as a manager in some other business. This salary for management forms a part of the profit.

(3) **Income for Bearing Risks and Uncertainties**—A businessman is required to take risks and face uncertainties in the business. The products which he manufactures may not be sold in the market. He may not explore market for his new product. He may not sell his products at the expected price. In all these cases he incurs loss. The profit which a trader makes after carefully forecasting the future trends of the market, a part of it is for bearing risks and uncertainties.

(4) **Income for Monopoly Business**—When a single seller sells a particular product in the entire market, he is known as monopolist. As a monopolist becomes the sole seller of a product, he wields monopoly power. As a result, he makes excess profit by creating artificial scarcity of the product and increasing its price. Therefore, a part of the profit is income for monopoly business. Sometimes law gives monopoly power to the traders, for example, patent, copyright, licence, business combination etc. By all these means a businessman seeks opportunity for monopoly business.

(5) **Income for Innovation**—A business man may make excess profit by innovating new product, new technique of production and exploring new markets. So a portion of profit is income for innovation. When something new is introduced replacing the old ones, demand for it is increased. Of course, income for innovation is earned so long the product of the similar nature or a better type is not introduced in the market.

(6) **Income for Product Differentiation**—Pure competition is rarely found in the market. Every businessman takes resort to product differentiation by means of constant advertisement. He creates an impression among the consumers by relentless advertisement that his product is the best in the market. In this way, he becomes a monopolist.

(7) **Market Imperfection**—When there is no pure competition, the market becomes imperfect. In the imperfect market new firms find it difficult to enter into any venture. At the same time suppliers of factors of production are exploited. They do not get fair price for their products. But the goods are sold at higher prices. This feature enables the businessman to make more profit.

(8) **Windfall Gains**—A business man can make more profit for various reasons if his luck favours him. If the price of the product is increased on account of inflation, war, changes in taste and fashion, festival or any other event businessman can make extra profit. When the supply of the substitute products is stopped or decreased, the price of the commodity is increased. In this way, when the price of the product is increased suddenly, profit becomes windfall gain.

Gross Profit

Excess of sale proceeds over cost price of the products or cost of production signifies Gross Profit. If a trader sells his product at a price higher than cost price or cost of production, he makes gross profit. Suppose, a trader purchases a product at Rs. 100 or produces a commodity at Rs. 100. If he can sell it at Rs. 150, he earns a gross profit of Rs. 50. In other words, sale proceeds—cost price or cost of production=Gross Profit. According to accounting principles direct expenses are deducted from the excess of sale value over cost price or cost of production. In the above example, if direct expenses (say Rs 25 in all) like wages, carriage inwards, cost of power and fuel are deducted, the gross profit becomes Rs. 25.

Ascertainment of Gross Profit

At the end of the year businessman finds out whether he has made profit or incurred loss during the year. So he determines gross profit first in order to calculate net profit of the business. We have noted, excess of sale proceeds over cost price or cost of production is gross profit. But all commodities may not be sold during the year. Unsold goods become the unsold stock of the business. Closing stock of a year becomes the opening stock of the next year. Again, goods which remain unsold at the close of the year form the closing stock. Now, both opening stock and closing stock are taken into consideration while finding out the gross profit of the business. Gross profit is calculated as follows—

Suppose, Sale proceeds during the year Rs. 20,000, purchases in the year Rs. 10,000, opening Stock Rs. 5,000 and closing stock Rs. 12,000, Gross profit is calculated as—

Sales	Rs. 20,000
+Closing Stock	Rs. 12,000
—Purchases 10,000	Rs. 32,000
+Opening Stock 5,000	Rs. 15,000
Gross Profit	Rs. 17,000

Business depends on Accountancy for determining gross profit. After recording day to day transactions in the books of account, a Trading Account is prepared at the end of the year. In the debit side of this account opening stock, purchases and direct expenses are debited. Sales and closing stock are credited in this account. The balance of this account shows the gross profit or gross loss.

Closing stock of the business is valued at cost price or market price whichever is lower. In other words, if the cost price is lower than market price, it is valued at cost price. On the other hand, if the market price is lower than cost price, the stock is valued at market price. If the market price is higher and the stock is valued at that rate, then the unrealised profit is brought into books of account as the goods have not yet been sold.

Net Profit

Profit in the business means net profit. It shows that the business is being managed efficiently. On the other hand, if the business is not managed properly, the loss is incurred. Of course, losses may be sustained for various other reasons. Indirect expenses like administrative and selling expenses are brought into books for determining the net profit. For the management of the affairs of the enterprise and for selling the products, administrative and selling expenses are incurred. These expenses are staff salaries, manager's salary, rent-rates, insurance premium, transport cost for selling the product or carriage outwards, printing and stationary, advertisement, depreciation of assets, bad debts etc. When these administrative and selling expenses are deducted from the gross profit, the net profit is arrived at. In the foregoing example, gross profit is calculated as Rs. 17,000. Suppose, administrative and selling expenses of the enterprise during the year are Rs. 10,000. Then Net profit is calculated as—

Gross profit Rs. 17,000 – Expenses Rs. 10,000
=Net profit Rs. 7,000.

At the end of the year a trader prepares a Profit and Loss Account for finding out the net profit of the business. In the credit side of the account gross profit and other incomes and gains like commission, interest and dividend received are recorded. In the debit side all indirect expenses like administrative and selling expenses are entered. The balance of the account shows the net profit of the business.

Sharing of Profit

Net profit is the distributable or divisible profit of the business. In other words, net profit is divided or distributed among the proprietors. But the nature of sharing of net profit is dependent on the structural form of the business.

In the Sole-proprietorship business the entire profit is taken by the sole-proprietor. This profit includes the prices of factors like land, machinery, machine tools, interest on money capital etc. which the proprietor has supplied to the business, salary for management and the incomes for bearing risks and uncertainties.

In the Partnership business net profit is divided among the partners according to the terms of the partnership agreement At what ratio the profit of the firm is to be shared by partners is recorded in the agreement. In the partnership deed the profit sharing ratio is mentioned. And the profit is shared according to that ratio If there is no agreement or the partnership deed does not mention the profit sharing ratio, the profit of the firm is distributed among the partners equally.

Sometimes, in terms of partnership deed interest on capital is paid to the partners. They are paid salary for participation in the management of the firm. They may be given commission on net profit. All these are deducted from the Net Profit to determine the distributable profit Therefore, when the partners share profit in addition to interest, salary and commission, they get it as income for bearing risks and uncertainties. According to some American economists, this share of profit is the **pure profit.**

In a limited company profit is shared by shareholders in the form of dividend. The rate of dividend is determined by directors and is announced in the annual general meeting. It depends on the quantum of profit and the financial position of the company. Dividend is paid to the shareholders on the face value of their shares. Suppose, a company has declared 10% dividend. If the total share capital of the company be Rs. 2,00,000, face value of each share be Rs. 100, then the number of share is 2000. In this case a dividend of Rs. 10 is paid on each share. If a shareholder holds 100 shares, he will get dividend of Rs. 1000.

Shareholders cannot take part in the management of the company. On the other hand, though the shareholders are the owners of the company, they are not required to supply factors of production like land, labour, loan capital etc to the company. So the dividend which the shareholders get is the income entirely for bearing risks and uncertainities and is, therefore, called pure profit.

Members of the co-operative association share profit in the form of dividend. Limit is imposed on the rate of dividend payable to the members. According to co-operative Societies Act, members are entitled to get maximum 10% dividend.

Members of the co-operative association can take part in the management of the business. They can supply factors like land, labour, money capital etc. to the association. Therefore, the share of profit which the members get is not entirely pure profit.

In the Hindu Joint Family Business the net profit is not divided among the members of the family. This is kept in the custody of the head of the family or manager.

Taxable Profit

Every business man or enterprise is required to pay income tax on taxable profit. The taxable profit of the business is determined according to the provisions of the Income Tax Act. Taxable income is calculated under different heads, namely, income from salary, income from house property, interest on securities, profits and gains from business or profession, capital gains and income from other sources.

Taxable Profit is calculated in accordance with the rules prescribed for the head 'Profits and Gains from Business or Profession'. The net profit which is determined by the enterprise basing on accounting principles is sometimes, not acceptable as taxable profit. **The taxable profit is found out** by deducting expenditures and losses allowable under the head 'Profits and Gains from Business or Profession' from the profits, gains and incomes included under this head in accordance with the Income Tax Act. In other words, it means the net profit which is arrived at after deducting allowable expenditures and losses from the profits and gains derived from the business only. Income tax is payable on such profit.

Only the revenue incomes and expenditures are taken into consideration in calculating taxable profit. Expenditures and incomes of capital nature are not taken into account.

The following expenditures and losses are allowable under the head Profits and Gains from Business or Profession—

(1) Expenditures on Premises, namely, rent, repairs of the rented house paid by the enterprise.

(2) Expenditures on machinery, machine tools and furniture.

(3) Depreciation on building, machinery, machine tools, furniture, motor car, motor lorry and ship. Only rates of depreciation applicable on different assets mentioned in the Income Tax Act are allowed.

(4) Expenditures on patent rights and copy rights.

(5) Insurance Premium.

(6) Salary, bonus and commission paid to the employees.
(7) Interest on borrowed capital.
(8) Contributions to Provident fund, Superannuation fund, Gratuity fund etc.
(9) Bad debts.
(10) Expenses for advertisement.
(11) Legal Expenses.
(12) Development Rebate, Development Allowance, Agricultural Development allowance etc.
(13) Other allowable expenditures.

The following expenses are not allowed—(a) Income Tax, (b) Wealth Tax, (c) Interest on capital, (d) Partners' salary, (e) Partners' commission, (f) Proprietors or Partners' personal incomes, (g) Drawings etc.

Legitimate and Illegitimate Profit

A businessman enters into business for making profit. This is the way of his livelihood. The profit which a trader makes by supplying goods and services at reasonable prices is called **Legitimate Profit.** Businessman expects fair return on capital invested in the business. Profit is the fair return on capital. He supplies capital to his business. He also supplies raw materials, machinery, machine tools etc. He works hard for the success of the business. He manages its affairs efficiently and properly. He bears all the risks and uncertainties. He satisfies the tastes, fashions and aspirations of his customers by producing new varities of products. He reduces the cost of production by increasing the scale of production, by increasing sales volume, exploring new markets and innovating new technique of production. He expects some remuneration for all these efforts and hard work. Profit is his remuneration or prize for hard work.

On the other hand, if the profit is made by supplying inferior quality goods and services at higher prices, by adulteration, by deceitful advertisement and publicity, by creating artificial scarcity to increase the prices of the products, it is known as **Illegitimate Profit**. Very often it is found that many businessmen deceive consumers by selling inferior quality goods as good quality products. By means of deceitful advertisement they create such an impression that the consumers can accept bad quallity as better quality products. They create artificial scarcity by hoarding simply to increase the prices of products. Sometimes, many businessmen deprive suppliers of factors of fair prices and

the amount due to them. Workers do not get fair wages from them. All these are done to make extra profit. Profit making in this way is illegal and harmful to the society. At present, many producers and sellers form business combination so that they can do monopoly business and make monopoly profit.

When a businessman makes profit by fulfilling his social responsibilities, by paying adequate and fair wages to the workers, by paying fair prices to the suppliers, by eliminating wastages, by utilising limited resources of the country economically and rationally, by innovating new products, by reducing cost by undertaking large scale production, it is known as **Profit Earning.**

On the other hand, when a trader makes profit by indulging in various nefarious practices, by deceiving customers and neglecting social responsibilities, it is called **Profiteering.**

The businessman who makes legitimate profit, is a **profit earner** but the trader who makes illegitimate profit is a **profiteer.**

Questions

Essay Type Questions

1. Define Capital. What are the important functions of Capital?
[Ans. Definition of Capital—Functions of Capital]

2. What do you mean by Capital? Indicate the classification of capital.
[Ans. Definition of Capital—classification of Capital]

3. What do you mean by Fixed Capital and Working Capital? Discuss the importance of these two types of capital in business.
[Ans. Classification of Capital—Fixed and Working Capital only]

4. What do you mean by owned Capital and Borrowed Capital? Discuss the important characteristics of these two types of capital.
[Ans. Classification of Capital—owned capital and borrowed capital only]

5. What is Turnover of Capital? On what factors Turnover of Capital depends?
[Ans. Turnover of Capital—Rapidity of Turnover]

6. Ratio of working assets to total sales indicates the turnover of Capital. Discuss the statement.
[Ans. Turnover of Capital]

7. What is Capital? How is capital formed?
[Ans. Definition of Capital—Formation of Capital]

8. Formation of capital depends on certain factors. What are these factors?

[Ans. Formation of Capital]

9. What are the different sources of raising capital?

[Ans. Sources of Raising Capital]

10. Indicate the sources from which a Public limited company can raise its capital.

[Ans. Sources of Raising Capital—only Public limited Co.]

11. What do you mean by Profit? What incomes of business-man are included in profit?

[Ans. Various Meanings of Profit.]

12. What do you mean by Gross Profit and Net profit? How do you ascertain these two types of profit?

[Ans. Gross Profit—Net profit—Ascertainment of Gross profit.]

13. What is meant by capital of a business? Enumerate the different forms of business capital. Explain the term capital turnover illustrating your answer with imaginary figures. [H. S. 1979]

[Ans. Definition of capital—Classification of capital—Turnover of capital.]

14. What are the various meanings of the term profit in economics, business and taxation? Elucidate the difference between legitimate and Illegitimate profit with suitable examples. [H. S. 1978]

[Ans. Various Meanings of profit—Legitimate and Illegitimate profit.]

15. Explain how performance and growth of business are influenced by turnover of capital. [H. S. 1979]

[Ans. Business Performance and Growth.]

Short Answer Type Questions

1. Indicate the difference between the meanings of capital in economics and business.

[Ans. Definition of capital]

2. What is Business capital? Classify it.

[Ans. Business capital]

3. Distinguish between Fixed and Working Capital.

[Ans. Fixed capital and working capital]

4. Why is Fixed capital necessary in business? Name the businesses where greater amount of fixed capital is necessary.

[Ans. Fixed capital]

5. Why is working capital necessary in business? Name the businesses where greater amount of working capital is necessary?
[Ans, Working Capital]

6. How is capital formed in a country?
[Ans. Formation of capital]

7. Explain the meaning of profit in economics.
[Ans. Various meanings of profit—5th Para]

8. What incomes in business are included in profit?
[Ans. Various meanings of profit—5th and 6th Paras].

9. How are profits shared in different types of business?
[Ans. Sharing of profit.]

10. What do you mean by Taxable profit?
[Ans. Taxable profit.]

11. Distinguish between—
(a) Profit making and profiteering.
(b) Profit earner and profiteer.
[Ans. Legitimate and Illegitimate profit—last 3 paras.]

Objective type Questions.

1. Answer in one word—

(a) Ratio of working capital to sales signifies what?

(b) What capital is necessary for meeting day to day expenditures in business?

(c) What capital is necessary for purchasing land, building, machinery etc?

(d) What capital is necessary for constructing roads, hospitals, schools, colleges etc?

(e) From which source a business can get very short term loan?

2. State True or False—

(a) In economics capital means produced means of production.

(b) Money capital is capital in business.

(c) Legitimate profit is the profit made after fulfilling social responsibilities.

(d) Businessman who makes ligitimate profit is called profiteer.

(e) Profit earned for bearing risk and uncertainty is pure profit.

CHAPTER 4

PURCHASE AND SALE

Purchase and sale—Critical Area of the Business

A businessman or an enterprise cannot produce all the things that are necessary for the production of the commodity An industrial enterprise requires various things like raw materials, machinery, machine tools, machine parts, assets, properties etc. for the production of the industrial product. It is not practicable for the enterprise to produce these things first and then to produce the industrial product it deals in. It is not profitable also. That is why, every enterprise produces that commodity for the production of which it has greater skill. It buys other things necessary for production. In this way, it buys raw materials, machinery etc. and then produces the product with the help of them. In a commercial enterprise commodities are not produced. It buys the commodities from manufacturers and sells them to the consumers.

Be it commercial or industrial enterprise purchase-sale is the critical area of the business. If these are not done efficiently and judiciously, profit cannot be made. We have noted that raw materials, machinery etc. are needed in an industrial enterprise. So these are to be purchased at the right quantity and at the right time, otherwise production will be hampered Procuring of materials, machinery etc. at the right time, at the right quantity and at reasonable prices for production or acquiring of commodities for sale is called **Purchase.**

Raw materials are bought with a greater care by the enterprise. If these are not purchased at the right time and at right quantity, not only the production is affected but the cost is increased if these are not bought at reasonable prices. On the other hand, if the commodities are not sold at acceptable prices in the competitive market, profit cannot be made in the business.

Objectives of Purchase.

Things are to be purchased in the business with the following objectives—

1. What raw materials are necessary for the production of the commodity are to be determined beforehand.

2. Various types of raw materials are available in the market. But the raw material is to be purchased after considering carefully what type of raw material is suitable for the production of the commodity. Similarly, machinery, machine tools etc. are to be purchased considering carefully their suitability for the purposes for which they are to be acquired.

3. The quality of the products is to be considered before their purchase. The quality of the product is improved if better quality raw materials or commodities are bought. If inferior quality of raw materials are purchased at cheaper prices, cost of production may be reduced but better quality products cannot be supplied to the customers.

4. The quantity of raw material to be purchased is to be estimated carefully to maintain the flow of production. Of course, it depends on the volume of production. On the other hand, in a commercial enterprise the quantity of purchase is dependent on volume of sales. Moreover, certain quantity of raw materials is to be kept in stock always to maintain the continuity of production. So raw materials are to be purchased before their stock is completely exhausted.

5. Storing of raw materials or commodity is essential for the flow of production or sales without any interruption. But what quantity is to be stored for uninterrupted flow of production or sales is to be estimated with a greater care. For if more is stored than what is necessary, a certain amount of working capital will remain blocked unnecessarily. On the otherhand, if less is stored, production or sales will be hampered.

6. Raw materials or commodities are also to be purchased at suitable prices. Suitable price does not always mean cheaper price. But the raw materials are to be bought at suitable prices otherwise the cost of production will be increased. As a result, the products cannot be sold in the competitive market at reasonable prices.

7. Sources of purchase have to be determined carefully so that the raw materials or commodities can be bought at suitable prices. Moreover, sources of purchase must be such that flow of purchase can be maintained. In other words, sources must be such that the supply of raw materials or commodity can be maintained.

Objectives of sales

Success or survival of the business is dependent on efficient performance of sales function. The objective of every enterprise is to maximise profit through the expansion of business. And the expansion

of business can be brought about with the increase in sales volume. Sale is, therefore, the most critical area of the business. Moreover, the success of business depends on adequate sales. Business enterprise is established for making profit by means of sales.

Volume of sales is dependent to a large extent on efficient sales management. Sometimes, it is found that better quality products cannot be sold adequately on account of inefficient sales management. On the contrary, efficient management of sales operation can bring in unexpected increase in the sales of even inferior quality products.

Sales function is to be performed with the following objectives—

1. At first it is to be determined what quantity is to be sold daily, weekly or monthly so that the economic objective of the business can be achieved.

2. Greater attention is to be paid to the taste and fashion prevailing in the society. For the prevailing tastes and fashions are satisfied by supplying goods and services. Otherwise, the goods and services cannot be sold in the market.

3. Market conditions are to be observed carefully by undertaking market research. For this purpose enquiries are to be conducted about consumers and retailers. Of course, market condition is dependent on general economic condition of a country.

4. At what price the commodity is to be sold is also to be determined. In the case of pure competition commodities are to be sold at the available marketprice. But in reality imperfect market is found. In the case of imperfect market the price of the product is to be determined in such a way that the profit can be maximised through increase in sales volume. In the purely competitive market, price cannot be increased. In that case consumers may be inclined to buy other products.

5. For efficient performance of sales function organisation is to be built up. Overall sales management is to be entrusted to a responsible sales executive. The entire market is to be divided into certain zones. And an Area Sales Manager or Zonal Manager is to be appointed for each zone, Each zonal manager is to be conferred the responsibility of selling the products in his respective zone. Their duty will be to get the commodities sold to the consumers by some expert salesmen.

6. Sometimes the policy of management by objective is followed to increase particularly the sales volume.

7. Advertisement is necessary for the proper performance of sales function. Market for the product cannot be created unless the

consumers are informed about the particulars of the product through advertisement.

What is Market ?

In a popular sense market means the place where commodities are bought and sold. In economics market refers to buying and selling of commodities and services, contracts for purchase and sale and any other exchange activities. But a modern market in the business world means and includes not only the meeting of buyers and sellers for the transfer of ownership of goods but also the possibilities and potentialities of such meeting. Actual delivery may be effected by endorsing and transferring of documents of titles to goods. Moreover, it includes also possibilities of meeting between buyers and sellers. If a buyer or a group of buyers in England agrees to purchanse any thing from the sellers in India, a market is created for Indian products in Britain.

Classification of Markets.

Markets are classified into various categories, namely—

(1) Regional, National and International Markets—when buying and selling operations are restricted to a particular region, it is known as local market or regional market. If the transactions are effected within the national boundaries of a country, it is called national market. The market is international when transactions take place between different countries.

(2) Organized and unorganized Markets—An organized market is a market where transactions are effected in accordance with the rules, regulations, customs and conventions of the market. Tea auction market, cotton market, stock exchange etc. are examples of organized market. It is very often a registered society and only members are allowed to transact business. The society frames rules and buying and selling operations take place according to these rules. This market is neither a wholesale nor a retail market, but it offers a market to both buyers and sellers. It controls trading activities and the conduct of its members. But transactions in an unorganized market are not effected according to any rules. They are dependent on individual decisions and initiative.

(3) Wholesale and Retail—Wholesale market deals in large quantities and is a connecting link between manufacturers and consumers. Retail market restricts buying and selling in small quantities

and establishes a link between manufacturers or wholesalers and ultimate consumers. These are unorganised markets.

(4) **Cash Market and Future Market** In a cash or spot market actual delivery of goods takes place immediately but in a futures market goods are delivered at a future date. Future market is organised but cash market is not organised.

(5) **Commodity Market and Stock Market** Commodity markets deal in material products like jute, cotton, bullions, etc. but in a stock market only securities like shares, stocks and government securities are bought and sold. Both are organised markets.

(6) **Capital and Monery Market**—Capital Market supplies long-term capital to trade and industry. Stock Market, Investment Trusts, Special Finance Corporations are examples of capital market. Money Market provides short term capital to traders and industrialists. Commercial Banks, Reserve Bank, State Bank and Co-operative Banks are constituents of money market.

(7) **Producers' and Consumers' Markets** In a producers' market producers' goods, that is, industrial raw-materials and tools are bought and sold but consumers' markets deal in finished products.

7 Importance of Market

Economic relations in the society are established through exchange. In fact, economy is developed on the basis of exchange. Business enterprises cannot be developed unless there is the exchange, that is, purchase and sale. And commodities are bought and sold in the market. Therefore, it reveals that business enterprises cannot be established unless the market is created. Industrial enterprises produce various industrial products because they can sell them in the market at convenient prices. On the other hand, industrial enterprises can produce commodities because they can procure materials, machine, tools etc. from the market. Purchase and sale are again the heart of a commercial enterprise. For the main function of a commercial enterprise is to buy commodities at convenient prices from one market and sell them at suitable prices in another. It is, therefore, clear that market plays an important role in production, employment, income earning, consumption, in other words, in the economic development of a country.

Importance of market lies in the functions that are performed by a market. It is revealed when the services rendered by the market are analysed. The following functions are performed by the market for the economic development of a country—

(1) Since the market supplies materials, machinery etc. to the industrial enterprises and makes arrangement for selling of their products, the enterprises can carry on their production.

(2) As the primary producers, particularly the farmers, can sell their produces in the market, the industrial enterprises can procure the materials and the consumers can get food and other essential commodities.

(3) The farmers can sell agricultural products at convenient prices in the market even before the crops are harvested, because future transactions can be effected in the organized commodity market.

(4) The manufacturers can invest capital in the business for production as they can get long term loans and advances from the capital market. In this way, they can procure short term loans from the money market for meeting day to day expenditures of the business.

(5) As the shares and debentures can be bought and sold in the share market, the public limited companies can secure their capital. It increases the mobility of capital. It facilitates also the conversion of shares and debentures into cash. Thus it helps the investment of the savings of the country. This increases the propensity to save and so the capital formation within the country.

(6) Manufacturers can sell their products at adequate prices as there is the wholesale market. They entrust distribution of their products to the wholesalers.

(7) Consumers can also get their necessary products in small quantities as there is the retail market.

(8) Government can raise loans by selling government securities in the Stock-Exchange.

(9) International market is established by means of exporting and importing commodities. Business enterprises can reduce cost by undertaking large scale production if they can extend the market by exporting commodities in the international market. On the otherhand, international trade increases interdependence and co-operation among different countries. Moreover, it expedites also economic development of the developing countries.

(10) Economic development in the different parts of a country can be made in the same pace if a national market is established by means of exchanging commodities between the different areas of the country.

Middleman or Business Intermediary

With the advancement of science and technology, transport and communication, market for a commodity has been spread over a wide area. Demand for a particular commodity is not confined to any region. On the other hand, it is demanded over an extensive area, if not, all over the world. This has prompted businessmen to produce on a large scale. Large scale production again entails production with the help of machinery. Machine production and keen competition have now brought about manifold complications. Moreover, modern production is a time consuming process and hence commodities are produced long before selling of them in the market. Businessmen are also required to create demand. Besides these, products are to be distributed and sold to the consumers. It is now very difficult for a manufacturer, however great he may be, to bear all these risks and to face these complexities. That is why, manufacturers delegate distribution functions to a class of expert individuals or specialised organisations. These expert individuals and specialised organisations are called middlemen or business intermediaries. Therefore, **businessman who buys goods from manufacturers and industrial enterprises and sells them to the consumers is known as Middleman or Business Intermediary.**

They become experts or specialised as they are always engaged in selling operation. They relieve the producers and industrial enterprises of the risk of distribution as they buy manufactured products from them. At the same time they maintain the flow of supply of commodities to the consumers. In other words, they not only provide opportunities to the manufacturers to sell their products but at the sametime they carry on the flow of supply to the consumers. It means that they stand as a link between the producers and the consumers.

They help both production and distribution of commodities. In one hand, they help production by purchasing raw materials from the primary producers and selling them to the industrial enterprises. On the other and, they help distribution by buying commodities from the industrial enterprises and selling them to the consumers.

Different classes of Middlemen or Business Intermediaries.

There are different classes of middlemen. Some of them are described below—

(1) **Broker**—A broker is an agent who makes contracts for purchase and sale of goods. He makes contract with the seller on behalf of the purchaser and with the purchaser on behalf of the seller and brings together both purchaser and seller. He does neither take possession of the goods nor act in his own name.

(2) **Factor**—A factor is also an agent but unlike broker he takes possession of the goods or acquires title to the goods and sells them in his own name. He makes contracts with the purchasers on behalf of the seller without disclosing the seller's name. He gets commisson as his remuneration.

(3) **Auctioneer**—Auctioneer is an agent who sells goods on behalf of the seller to the highest bidder. He gets commission or a fixed amount as his remuneration. When he sells without reserve, he must sell to the highest bidder.

(4) **Commission Agent**—As the name implies, a commission agent purchases or sells goods on behalf of the principal on commission basis. His important function, of course, is to secure orders from foreign buyers and place them to the home manufacturers in his own name. He is also entrusted to buy goods in foreign countries on behalf of his principal. He also takes responsibility for the shipment of goods.

(5) **Del Credere Agent**—He is an agent who undertakes extra responsibility about the solvency of the buyers in consideration of extra commission known as **del credere commission.** In other words, he gives undertaking to the consignor on behalf of whom he sells goods, that the buyers will pay the amount of the goods.

(6) **Forwarding Agent**—He is chiefly employed to deliver the goods to the destination. He arranges for the shipment of the goods on behalf of the exporter or importer. He is an expert in this respect.

(7) **Warehouser**—This class of middleman is entrusted with the responsibility of warehousing or storing goods on behalf of the owner. He gets rent or commission as remuneration.

(8) **Underwriters**—They undertake to sell shares on behalf of a company. They, of course, guarantee that they would sell a certain amount of shares. In case they cannot sell to the public the guaranteed amount of shares, they buy them. They get underwriting commission as their remuneration.

(9) **Sole selling Agent**—He acts as an agent of an industrial enterprise and undertakes the selling of its product in a particular area. As a single agent is appointed for selling the product in a particular area, he is known as sole selling agent. He sells the commodities to the retailers of a particular area. Commission is his remuneration.

(10) **Consignee**—Businessmen or Wholesalers sometimes appoint traders of other areas as agents to sell their products in different markets. These trader-agents keep the merchandise in their own custody and sell them in cash or on credit in their respective areas on the basis of commission. These trader-agents are called consignee.

Services and Disservices rendered By middlemen

The primary duty of a middleman is to buy raw-materials from small producers or growers and supply them to the manufacturers or to procure finished goods from different manufacturers and sell those goods to the ultimate consumers. While performing this basic function he renders some important services. These are :—

(a) He supplies raw-materials to the manufacturers, otherwise the manufacturers would have procured the same from different producers or growers.

(b) He provides ready market to the manufacturer and relieves him of the risks of distribution. Hence, the manufacturer may devote his time and energy towards improving production and finding out new products and processes.

(c) Consumers are supplied with all sorts of products throughout the year. The customer gets all necessary things at his door step. Middleman makes it possible.

(d) He creates place utilities by transporting goods from one place to another.

(e) He creates time utilities by storing or warehousing merchandise.

(f) He is required to study the prevailing condition and future trends of the market and gives necessary suggestion to the manufacturers about the impending changes in tastes and fashions.

(g) He renders certain ancillary services and makes the goods marketable by means of assembling, grading, sampling etc.

(h) Sometimes, he advances money to the manufacturer and thus helps him to get back his working capital.

But much criticisms are levelled against middlemen. They are called parasites of the society. Every time an article changes hands,

certain margin is added to its cost. It is estimated that more than half of the price of a product consists of a wholesaler's and a retailer's profit margin. Consumers can purchase commodities at a much cheaper price if the middlemen are eliminated.

Some argue that producers can perform these distributive functions and can sell directly to the consumers. In fact, manufacturers of some of the standard products sell directly to the consumers through multiple shop system. Consumers' Co-operative Stores have also been established to avoid middlemen and get the things directly from the manufacturers.

The following are the disservices rendered by middlemen—

(a) They hinder the close touch between the producer and the consumer.

(b) They increase the price of the product by adding profit margin to the cost of the product.

(c) Sometimes, they create artificial scarcity by cornering stocks and unnecessarily increase the prices by indulging in black-marketing.

(d) By maladjusting demand and supply they bring in immense hardship to the consumers.

Some of these abuses can, of course, be removed by taking suitable measures.

Though much is said against middlemen, they are indispensable in a capitalist set-up. In certain cases producers have undertaken distribution functions. But the situation is not improved much. Producers are to incur expenditures even more than usual for distribution or marketing of their products. For this, the prices of the products are gone up instead of coming down. It is better, therefore, to delegate this ever important marketing function to the middlemen.

Stockholding, Speculation and Hoarding

Stockholding

Every enterprise is required to keep stock of products. Raw-materials are kept in stock for carrying on production. If the raw-materials are not stocked at the right time and at right quantity, production may be hampered. That is why, a particular quantity is always kept in stock in the industrial enterprise. When the stock of materials is reduced for their use in production, it is replenished by fresh purchases. Suppose, in an industrial enterprise, the stock of materials is

fixed as 1000 kilograms. Suppose again, it is estimated from the experience that this quantity of materials is to be always kept in stock otherwise production will be interrupted. Suppose further, the quantity in stock at present is 1500 kilograms. Now, if a quantity of 600 kgs. is used for production, the stock comes down to 900 kgs. As the stock reduces below 1000 kgs. the enterprise has to purchase 100 kgs. to make the stock 1000 kgs. again.

Besides, raw materials are purchased at convenient prices and then they are stocked. For prices fluctuate in the market. If it is apprehended that price may rise in future, they are bought at present at cheaper prices and then kept in stock. Otherwise, production cost will be increased on account of purchasing raw materials at higher prices.

On the other hand, finished products are kept in stock for maintaining the flow of supply to the consumers. The flow of supply in the market is to be maintained otherwise the demand for the products may be shifted to others. Besides, it may tell upon the profit of the business, if the commodities are not sold at profitable prices. But prices fluctuate in the market owing to change in taste and fashion of the consumers and consequently change in demand. There is the possibility of incurring losses if the products are marketed at lower prices. That is why, for facilitating selling of the commodities at profitable prices, they are always kept in stock. This type of holding stock for economic reasons is known as **Stockholding.**

Speculation

Speculation means estimation of future demand and supply of the products and adjustment of buying and selling accordingly. Speculators, a class of expert traders, carefully study the trends of the market and resort to buying and selling of products for the purpose of trading at a profit in future. They buy at cheaper prices with the expectation that they will be able to sell the products at higher prices in future.

Speculation renders three important services, namely, (a) it achieves price stability, (b) it reduces risks of production and (c) it maintains a continuous flow of production and distribution.

Price stability is achieved by speculators' activities. They buy commodities when prices are low. As a result of large scale buying prices are automatically increased. On the other hand, they usually sell the products when prices become high and as a consequence of widespread selling, prices become low again. In this way, prices tend

to remain stable and fluctuations are eliminated by speculative buying and selling.

Secondly, production becomes very risky on account of a time-gap between production and ultimate consumption. But since distributive functions are delegated to a class of expert speculators, production is now not so much risky. Some of the manifold risks involved in a business are shifted to these professional speculators.

Lastly, producers can attend to their production efforts as a consequence of the shifting of risks. They can maintain a continuous flow of production, as their markets are assured by the speculators. No interruption is also made in the distribution of products on account of the continuous buying and selling operations undertaken by the broker speculators.

Legitimate speculators study carefully the future trends of the market and engage themselves in buying and selling operations for the purpose of making profits. Their activities bring about stable prices, effect proper distribution of goods and reduce risks in production.

But illegitimate speculation may hamper the economic progress of a country. Illegitimate action of the speculators is known as gambling. They indulge in future dealings simply for making profit by some other means. They manipulate prices by spreading rumours and disseminating false information. Commodities are cornered and sold at high prices by creating artificial scarcity. Sometimes, they resort to 'bear squeeze' when they go on purchasing commodities for depressing prices so that they can again buy back at cheaper prices. On the other hand, prices are raised by fictitious or false selling known as 'wash sales'.

All these activities of the speculators increase or decrease artificially the demand for and supply of the commodities. Unwanted price fluctuations disturb the genuine trading activities and hedging operation becomes impossible. Production is hampered as the producers cannot buy raw-materials due to spiralling prices. They cannot also sell their products on account of sudden depression in the market. Distribution of essential commodities cannot be effected properly and planned industrial development is obstructed. The whole economy is somewhat dismantled.

Hoarding

In reality very often it is found that the black marketeers hoard commodities for creating artificial scarcity to increase prices for profiteering. **When commodities are cornered for creating artificial**

scarcity to increase prices for profiteering, it is known as Hoarding. These traders engaged in nefarious practices are called swindlers and profiteers.

Economic development of a country is impaired on account of hoarding. Production and distribution of commodities are also hampered. Manufacturers cannot procure raw materials at suitable prices. Consumers cannot also buy commodities at convenient prices. Supply of essential commodities is interrupted. To sum up, economy is somewhat dismantled on account of hoarding of stock by these black-marketeers and profiteers. People of the country suffer a lot for rising prices and non-availability of the essential products. Planned economic development is also obstructed.

Turnover of Stock

Every industrial enterprise keeps three types of stock, namely, stock of raw materials, stock of partly finished products and stock of finished products.

The capital introduced in the business is utilised for buying raw materials. By means of production processes raw materials are converted into finished products and by selling, finished products are converted into cash. In this way, the money which the businessman gets back is used again for buying raw materials. These are again turned into finished products and finished products into cash. This **conversion of raw materials into finished products and finished products into cash is known as Turnover of Stock.**

Every enterprise is required to keep stock of raw materials, otherwise production may be impeded. Various types of raw materials are kept in stock. Some are used in production frequently and some other are seldom utilised. So which raw materials are to be kept in stock and at what quantities are determined depending on their uses in production. The raw materials that are used frequently are to be kept in stock always. And the materials those are rarely required for production may be stocked in small quantities. Which materials are used very often and which are used infrequently can be determined by the ratio of cost of materials consumed during the year and average stock of materials during the year.

The ratio is found out as follows—

$$\frac{\text{Cost of Materials consumed during the year}}{\text{Average stock of Materials during the year}}$$

The average stock of materials of the year is determined in the following way—

$$\frac{\text{Opening Stock of Materials} + \text{Closing Stock of Materials}}{2}$$

Let us express the concept by an example. Suppose, in an industrial enterprise the opening stock of materials is Rs 6000, closing stock Rs. 10,000 and purchase of materials during the year is Rs 52,000.

Then, average stock is

$$\frac{6{,}000+10{,}000}{2}=8000$$

Materials used during the year—

Rs 6000+52000−10.000 =Rs 48.000

In other words, materials consumed during the year is found out by adding opening stock with the purchase of materials during the year and then the closing stock of materials is deducted therefrom.

Now the ratio of cost of materials consumed and average stock of materials is

$$\frac{\text{Rs } 48000}{8000}=6$$

It means that during the year the materials are converted into finished products 6 times. In other words, stock of materials is kept for two months.* And time taken for conversion of raw materials into finished products is (365÷6) about 61 days.

In this way stock turnover of partly finished goods and finished products can be found out. Finished goods are turned over to cash. And the stock turnover of the finished products can be determined as follows—

Suppose, opening stock of finished goods is Rs 12,000, closing stock of finished goods Rs. 8000 and purchase or production of finished goods is Rs 46,000 during the year.

Then average stock of finished goods is

$$\frac{\text{Rs. } 12{,}000+\text{Rs } 8{,}000}{2}=\text{Rs. } 10{,}000$$

Cost of goods sold during the year is

Rs. 12,000+Rs. 46,000—Rs. 8000=Rs. 50,000

Since turnover of finished goods

$$=\frac{\text{Cost of goods Sold}}{\text{Average Stock}}$$

Therefore, $\frac{50{,}000}{10{,}000}=5$

* Cost Accounting—Wheldon

It shows that finished goods have been turned over five times during the year. Stock of finished products has been kept for 2 months and 12 days. And the time taken for conversion of finished goods into cash is (365÷5) 73 days.

Stock turnover of finished goods is dependent on sales. The sales volume of the enterprise can be increased if the enterprise follows a sound sales policy and selling operations are managed efficiently. Greater the rapidity of sales, the greater the number of times the stock of finished goods will be converted into cash.

Essential Aspects of Buying-Selling Transaction.

There are three essential aspects of buying-selling transaction, namely, (1) **Goods**, (2) **Delivery of Goods** and (3) **Payment**. These aspects are enumerated below—

Goods

The subject-matter of buying-selling transaction is goods. All things are not goods. The things which are transferable by delivery are called goods. Land, building, factory, office-building etc. are not goods for they cannot be transferred by delivery. But garments, raw materials, machinery, machine tools, finished products are goods, for they are transferable. Again, man has got certain inner qualities which cannot be separated from man, for example labour, dexterity to produce anything, teaching, song etc. All these are not goods for these are not transferable. Therefore, the goods can be bought and sold as they are transferable. In accordance with the Sale of Goods Act of our country only the things which are movable or transferable by delivery are known as goods.

Classification of Goods

Goods are classified as follows—

(1) Production or Industrial Goods : The goods that are used for further production are called Production or capital or Industrial Goods. Raw materials, machinery, machine tools, things needed for daily work etc. are examples of production or industrial goods. Jute goods are produced from raw jute, cotton fabrics are made from raw cotton, steel is produced from iron-ore, coal, manganese etc. several bye-products are obtained from mineral oil. All these are industrial raw materials. These raw materials are converted into finished products with the help of machinery. Machine tools are smaller machinery which are used in production. Chair, table, typewriter, telephone are equipments that help production.

Moreover, there are certain things that are needed every day, namely, stationery products like pen, pencil, ink etc. All these are production or industrial goods.

(2) **Consumption Goods :** Certain commodities are used directly. They are not utilised for further production. These commodities are consumption goods. Garments, tea, sugar, spices, soap and other things necessary for everyday life are examples of consumption goods.

(3) **Convenience, Shopping and Speciality Goods**—The commodities that can be bought easily, immediately and daily are convenience goods. Tobacco, newspaper, magazines, medicines etc. are examples of convenience goods. Shopping goods are the things that are purchased for the satisfaction of prevailing tastes and fashions or for a particular purpose. Examples are readymade garments, shoe, fashionable garments, furniture etc. Speciality goods are watch, radio, motor car, television, freeze, costly shoe and garment etc.

(4) **Specific and Unascertained Goods**—Goods are specific when they are sold according to grade, sample and brand. When goods are not specific but are sold by sample and description, they become unascertained goods.

(5) **Existing and Future Goods**—The goods which are always kept by the seller and can be supplied to the customers immediately on order are Existing Goods. These commodities we buy daily from the shops. We need not wait for the goods. We can get them immediately whenever we place order.

On the other hand, future goods cannot be delivered immediately on order but are promised to be supplied at a future date. These goods are not kept in possession of the shop-keeper for they have not been either produced or procured by the shop-keeper. Whenever order for such goods is placed, the shop-keeper produces or procures them from other manufacturers. Sometimes, the seller supplies the goods at a future date after procuring them from the market.

Delivery of Goods

Whenever the goods are sold, it is the responsibility of the seller to deliver the goods within a reasonable time. All formalities in respect of the delivery of goods are required to be provided in the contract of sale. In other words, where the goods are to be delivered, when they are to be supplied, within how many days they are to be delivered, matters relating to the transportation of goods—all these

are to be provided in the agreement. But the seller is to deliver the goods to the buyer following the mode or manner of delivery which is provided in the agreement. If there is no contract of sale or if the contract of sale does not provide anything about delivery, the seller is to deliver goods only on the demand of the buyer. That is, only when the buyer gives his consent to deliver the goods to him. Whether the goods are to be delivered to the buyer or the buyer is to take delivery of goods from the seller is dependent on the terms of the contract of sale. Moreover, in the absence of any contract, the goods are to be delivered at a place at which they are at the time of sale. If the goods are future goods, they are to be delivered at the place at which they are manufactured.

The seller can deliver the goods forthwith whenever he receives order from the buyer if, of course, the goods are in stock. This type of delivery of goods is called **Ready Delivery.** If the seller does not possess the goods, he procures them from other manufacturers whenever he receives orders and supplies the goods within a few days to the customers. This is known as **Prompt Delivery.** It is also seen in actual practice that the goods are bought and sold though they have not yet been produced or procured. In that case the seller cannot supply the goods when the order is placed. In this case, contract of sale is made by the seller agreeing to deliver the goods at a future date. This type of delivery is called **Forward or Future Delivery.** In the commodity market or produce exchange forward contract is entered into by the buyer and seller whereby the seller undertakes to deliver the goods to the buyer at a future date. Generally, agricultural commodities like tea, jute, cotton etc. are transacted in the commodity market. Very often goods are bought and sold in the commodity market even before their production. Sometimes actual delivery is not made. The speculators earn the margin of profit by buying and selling the future. For example, A makes a forward contract that he will supply 500 bales of jute at the rate of Rs 200 per bale to a jute mill. The jute is to be delivered two months after the contract. After two months if he finds that the price of jute is Rs 150 per bale, he makes profit. For he will buy them at Rs 150 per bale from the market and sell them to the jute mill at Rs 200 per bale. But the buyer, that is, the jute mill incurs loss for it could buy the jute at Rs 150 per bale. Instead, it is to pay Rs 200 per bale. On the other-hand, if the market price of jute becomes Rs 220 per bale, the seller will sustain loss for he is to supply at Rs 200. But the buyer will gain for he gets it at Rs 200 per bale though the market price is Rs 220.

Many industrial enterprises, in this way, buy raw materials in future. But they enter into Hedging Contract to guard against probable losses.

Transfer of Ownership

Ownership of goods is transferred from the seller to the buyer when the goods are sold. Therefore, it is desirable that at the time of making contract of sale the seller and the buyer should determine when the ownership is to be transfered from the seller to the buyer. For the risk in respect of the goods passes with the transfer of ownership. If the goods are lost or damaged, the owner of the goods will sustain the loss. In other words, the person who is the owner at the time when the goods are lost or damaged is to bear the loss. When the transfer of ownership will take place is dependent on the intention of the purchaser and seller. Of course, their intention is mentioned in the contract of sale. In fact, the time of transfer of ownership is considered in accordance with the terms of contract of sale.

Problem does not arise in respect of transfer of ownership in the case of specific goods. Ownership is transferred when the contract of sale is entered into by the buyer and the seller. It does not matter when the goods have been delivered and the price has been paid. Of course, even in the case of specific goods change in ownership takes place according to the terms of contract of sale. If the contract of sal does not provide anything about the transfer of ownership, the foregoing rule is to be followed.

In the case of unascertained goods, ownership is not transferred. But the ownership in these goods can be transferred only in the case of that part of the goods which have been ascertained.

Payment of Price

Price of goods is determined at the time of making contract of sale. Generally price is determined after much haggling and bargaining between the buyer and the seller. Where the goods are sold at a fixed price, the question of price determination does not arise. Very often certain amount is deducted from the price for fixing the sale price. This is called **Discount.** There are two types of discount, namely, **Trade Discount** and **Cash Discount.** The discount which is allowed by the wholesaler to the retailer and by the retailer to the consumer at the time of sale is called **Trade Discount.** This is granted for increasing the volume of sales. The seller lures the buyer to buy

the goods by allowing the trade discount. For the buyer is benefited if he gets the discount. Particularly, the discount which the retailer gets from the wholesaler increases his profit. The rate of discount is dependent on the quantity of purchase. Greater the volume of purchase, greater will be the rate of discount. Sometimes, the wholesaler fixes the minimum quantity of purchase for allowing the trade discount. For example, if a wholesaler declares that 5% discount will be allowed only when a quantity of 10 Kgs. is purchased at a time, nobody will be granted discount if the purchase is less than 10 Kgs.

Very often price is not paid at the time of sale even in the case of cash sale. Price is paid by the buyer after some days. On the other hand, goods are also sold on credit. For the buyer cannot pay the price forthwith. When the goods are sold on credit, price is paid at a future date. For alluring buyer to make prompt payment, certain concession is granted to him. This is known as **cash discount.** Of course, cash discount is allowed only when payment is made on or within a particular date. In other words, if the seller declares that cash discount will be granted only when payment is made within one month, the buyer can enjoy the benefit if he makes payment within a month.

Terms of payment are provided in the contract of sale. Sometimes, terms of payment are settled by the buyer and the seller. When the goods are sold for cash, price is paid immediately on the delivery of goods. This is called **Cash on Delivery.** Sometimes, price is not paid forthwith even in the case of cash-sale. It is paid a few days after delivery of goods. This is known as **Prompt Payment.**. When the price is not paid at the time of delivery of goods, but is agreed to be paid at a future date, it is **credit sale.**

Sometimes the buyer pays for the goods in instalments. First instalment is paid at the time of delivery. Subsequent instalments are paid monthly, six monthly or yearly. This is called **Instalment Payment System.** Suppose, a buyer has bought goods of Rs. 1000 and the price is to be paid in instalments. Suppose further, he has paid the first instalment of Rs. 400 on delivery and the remaining amount he is to pay in equal monthly instalments. In that case he is to pay the remaining amount Rs 100 per month for six months. In the case of instalment payment system, ownership is tranferred at the time of payment of first instalment.

Goods can also be sold at **Hire-Purchase System.** Like instalment payment, in this case also payment for the price is made in instalments. The first instalment is paid on delivery of the goods and

subsequently instalments are paid either monthly or six monthly or yearly. But unlike instalment payment system the ownership is transferred in this case only when the last instalment is paid. If the buyer defaults in paying the instalment the seller can take back the goods.

It is desirable that the buyer and seller should also settle the mode of payment of the price. In accordance with the terms of contract of sale, the buyer can pay for the goods—

(1) in cash, (2) by cheque, (3) by accepting bill of exchange, (4) by bank draft and (5) by promissory note.

When very small quantity is bought or in the case of petty payment, it can be made in cash. In the case of ready delivery, payment is made in cash. Retailers normally sell their wares in cash. If the money is sent to a distant place, the payment is made by **money order. Postal order** can also be used for making payment at a distant place. Payee mentioned in the postal order can withdraw the money of the postal order from the paying post office which is also mentioned in the postal order. In the case of **Crossed Postal Order,** the seller can get the payment through a bank. The paying post office deposits the sum to the sellers account in the bank. The bank may also collect the amount from the paying post office and deposits it in the seller's account.

In the modern business world banking system is widely used for making payment. Very often payment is made by **cheque.** There are three types of cheque, namely, **Bearer cheque, Order cheque** and **Crossed cheque.** Bearer cheque can be cashed at the counter of the bank. In the case of order cheque, payee himself or the person to whom the payee has endorsed the cheque can collect the amount of the cheque through his banker from the paying bank. But the crossed cheque cannot be cashed at the counter. The payee is to deposit the cheque with his bank where he has opened his account. His banker collects the amount from the paying banker and deposits the amount in the payee's account.

Payment can also be made by **Bill of Exchange.**. In this case the seller draws a bill of exchange on the buyer. It is stated in the bill that the buyer undertakes to pay for the bill after a certain period of time. It is then sent to the buyer who accepts it and then sends it to the seller. If the seller wants to get the money immediately, he can discount the bill with his banker. But in the case of **Promissory Note,** the buyer promises to pay the amount after certain period of time. This Note is sent by the buyer to the seller. At maturity the seller produces the note before the buyer and receives the sum mentioned in the note.

Sometimes the price is paid by **Bank Draft.** The buyer buys the draft from the bank and records in the draft the name of the seller. He sends the draft to the seller who produces the same before the bank and gets the amount.

Methods of Remittance

Whenever the seller sells the goods, it is the duty of the buyer to pay for the goods. The buyer can make payment in various ways. But it is desireable to settle the mode of payment at the time of sale. If the buyer and seller stay at the same place, payment can easily be made. But a different method is to be followed if they are at distant places. Generally, after considering the circumstances the buyer and seller should fix up a method of payment which is convenient to both of them and at the same time less risky.

Different methods of remittance for the purpose of making payment are enumerated below—

Cash

When the buyer and seller stay at the same place and it the price of the goods is not very high, normally, payment is made in cash. Payment in cash means paying by notes and coins.

Remittance Through Post office.

If the buyer and the seller stay at different places, it is preferable to remit payment through post office. There are three ways of remitting payment through post office.

These are—by **money order, telegraphic money order and postal order.** In the case of payment by money order, a prescribed form issued by the post office is to be filled in stating therein the name of the seller, amount etc. and deposited with a post office. Later, the money is sent to the seller by the post office of the area where the seller lives. When it is necessary that the money is to be sent quickly, it is remitted by telegraphic money order (T.M.O).

Post office issues postal orders of various denominations. If the buyer likes to send money by postal order, he is to buy postal orders of a particular denomination or different denominations. Then he is to state therein the name of the payee, the name of the post office of the area where the amount is to be remitted. The buyer then sends the postal orders to the seller who produces them in the post office of his area and receives the payment. Postal order is crossed by drawing

two parallel lines on the face of the order and the word '& Co' is written in between the lines. Crossed postal order cannot be cashed at the counter of the post office. It is deposited in the seller's bank account. It is also safe for if it is lost or stolen, nobody can cash it as it is paid by depositing the amount in the payee's bank account.

Remittance Through Bank

Payment by cheque is widely practised at present in the business world. Payment in cash is not safe. Cheque payment is not only less risky but at the same time convenient. Particularly it is safe when the money is required to be sent to a distant place. **A cheque is a bill of exchange containing an order on a bank to pay on demand a certain sum of money to the drawer himself or to his order or to the bearer.**

There are three types of cheque, namely Bearer cheque, order cheque and Crossed Cheque.

Bearer Cheque : Bearer cheque is payable to the bearer or holder of the cheque. It is paid on the counter of the bank. It is as good as a currency note. If it is lost or stolen, anybody can cash it in the bank.

Order Cheque : It is payable to a person stated therein or to his order. If a person whose name is mentioned in the cheque endorses the cheque to be payable to another person, it is said to be payable to his order. If the order cheque contains a direction to pay the stated sum to a certain person only, that is, "Pay Sri S. N. Ghosh only" or the words 'Not Transferable' is mentioned, the amount of the cheque is to be paid to the payee only.

Crossed Cheque : Crossed cheque is a cheque which is not paid on the counter of a bank. The amount is credited by the bank to the account of the payee. If a person gets a crossed cheque, he will be required to deposit it with his bank. His bank known as collecting bank will get the amount from the paying bank and credit his account. Then he can get the amount by drawing a cheque on his bank. A collecting bank is a bank where the crossed cheque is deposited and the paying bank is a banker on whom the crossed cheque is drawn. To make a cheque crossed one, two parallel lines are to be drawn across the face of the cheque with the words '& Co' or 'Account Payee' or 'Not Negotiable' etc. Sometimes, the name of a bank is mentioned in between the parallel lines. It means that the amount is payable only through the bank the name of which is written between these lines. Payment by crossed cheque is safe. For if it is lost or stolen, nobody can cash it in the bank.

Bank Draft

Bank draft is a negotiable instrument containing an order on a bank to pay on demand or on sight a certain sum of money. It is also known as pay order. To remit payment by bank draft, the buyer is to buy the draft from a bank, written therein the name of the seller or the payee. He sends the same to the seller who deposits it in his bank and gets the amount mentioned in the draft collected from the paying bank.

Bill of Exchange

Buyer pays for the goods at a future date in the case of credit sale. If the seller wants the payment immediately, he can draw a bill of exchange on the buyer and get it accepted by the buyer.

A bill of exchange is an unconditional order in writing, signed by the person who makes it, directing a certain person stated therein, to pay on demand or after a certain period of time a certain sum of money, mentioned in the bill, to or to the order of another person or to the bearer.

There are three parties in a bill of exchange, namely, the Drawer, the Drawee and the Payee. The person who makes or draws the bill is **Drawer,** to whom it is drawn or who accepts the bill is known as **Drawee** or **Acceptor** and the person to whom the amount of the bill is payable at maturity is **Payee.** The drawer may himself be the payee. The bill becomes a real bill when it is accepted by the drawee. The maker or holder of the bill can endorse the bill to another person. The Endorser is therefore, a person who transfers the bill to another person after putting his signature on the bill.

Specimen of a Bill of Exchange

STAMP   Dated Calcutta 23rd February 1982

Three months after date pay Sri P. N. Bose or order a sum of Rupees Five hundred (Rs 500|-) only for value received.

To S. Mukherjee
Mahatma Gandhi Road,
Calcutta
(Drawee)

Accepted
S. Mukherpee
25.2.82

N. Roy
(Drawer)

The seller draws the bill and sends it to the buyer. The buyer accepts it and sends it again to the seller. If the seller wants the money immediately he can discount the bill with his bank. The bank deducts a certain sum from the amount of the bill known as discount charge and pays the balance amount to the seller. For example, if the amount of the bill is Rs 100, bank deducts Rs 3 (if the rate of discount is 3%) and pays the balance amount Rs 97 to the seller. On the other hand, he may wait till the maturity of the bill and gets the payment from drawee.

There are certain advantages of payment by the bill of exchange Firstly, the seller can know when he will realise the amount from the buyer. Secondly, the seller can get the amount immediately by discounting the bill with his banker. Thirdly, since the bill of exchange is a negotiable instrument, the seller can make payment to his creditor by endorsing the bill instead of paying cash.

Promissory Note

The buyer may make payment by promissory note. When he draws a promissory note, he promises to pay a certain sum of money after a certain period of time. At maturity the payee or the seller presents the note before the buyer and receives the amount mentioned in the note.

Promissory Note is an unconditional promise in writing, signed by the maker, to pay a certain sum of money on demand or after a certain period of time to or to the order of a person or to the bearer of the instrument.

Specimen of a Promissory Note

Rs 5000|-

Ballygaunge
Calcutta, 23rd Feb. 1982

On demand I promise to pay Sri S. N. Ghosh or order a sum of Rupees five Thousand only (Rs 5000|-) for value received.

K. N. Bose
Signature

Stamp

There are two parties in a promissory note, namely, the maker and the payee. The person who promises to pay is the Maker and to whom the amount of the note is payable is the **Payee.** The makers of the note are jointly and severally liable.

Distinction between a Promissory Note and a Bill of Exchange

The following are the points of distinction—

(1) A promissory note is a promise to pay, but a bill of exchange is an order to pay.

(2) Three parties are involved in a bill, namely, the drawer, the drawee and the payee, while two parties are involved in a promissory note, the maker and the payee.

(3) A bill of exchange requires acceptance, but a promissory note is itself an acceptance and hence need not be presented for acceptance.

(4) A bill is drawn by a creditor and payable by the debtor, whereas a promissory note is drawn by a debtor on a creditor.

(5) When a bill is accepted by more than one person, the acceptors are jointly liable on the bill while the makers of a promissory note are jointly or severally liable.

(6) The liability of the drawer of a bill is secondary, that is, the liability arises only when the acceptor does not honour the bill. The liability of the maker of a promissory note is primary.

Distinction between a Cheque and a Bill of Exchange

The following are the points of distinction—

(1) Both are unconditional order, but a bill is an order on a debtor while a cheque is an order on a bank.

(2) A bill requires acceptance but a cheque does not require any acceptance,

(3) A cheque is payable on demand, but a bill is payable either on demand or at a future date.

(4) A bill can be discounted and for this facility, sometimes, it is drawn, but a cheque cannot be discounted.

(5) The drawer of a bill is discharged from the liability, if it is not presented for payment on the due date while the drawer of a cheque is not discharged, if it is not presented except only when he suffers damage for such non-presentment.

(6) A bill requires stamp but a cheque does not require any stamp.

(7) A cheque is crossed but a bill is not required to be crossed.

(8) Notice of dishonour is not necessary in the case of a cheque while it is necessary in the case of a bill.

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Distinction between a Cheque and a Promissory Note

(1) A promissory note is a promise to pay, while a cheque is an unconditional order on a bank.

(2) Three parties are involved in the case of a cheque, namely, the drawer, the drawee and the payee ; but two are there in the case of a promissory note, namely, the maker and the payee.

(3) A promissory note is drawn by a debtor on a creditor, but a cheque is always drawn on a bank.

(4) A promissory note requires stamp, but a cheque does not require any stamp.

(5) A cheque can be crossed, but a promissory note is not required to be crossed.

(6) A cheque is payable on demand, but a promissory note is payable either on demand or at a future date.

Buying Procedure

The following procedure is followed by a business enterprise for purchasing raw materials or finished products—

(1) Determination of the quantity and quality of the products : Before buying any material the quantity and the quality of the material are to be determined carefully. Purchase function is entrusted to the purchase department of the enterprise. Whenever any department of the enterprise requires to purchase any commodity, it sends information to the purchase department. Normally, the stores department sends information to the purchase department about the replenishment of the stocks of various materials. The purchase department places orders to the suppliers according to the position of stocks of materials.

(2) Issue of Letter of Enquiry : Letters of enquiry are sent to the different suppliers. The quantity, quality and the time when the materials are to be supplied to the enterprise, all these particulars are stated in the letter of enquiry. Particularly, suppliers are requested in the letter of enquiry to quote the prices of materials.

(3) Tender Call : Sometimes, tenders are invited from the different suppliers instead of issuing enquiry letters to them. Tenders or quotations are invited by inserting advertisement in the newspaper intimating therein the quantity, quality, type and shape of the material to be supplied to the enterprise. Very often circular letters are issued to the suppliers inviting quotations from them.

(4) Determination of the Source of Supply : After receiving the quotations, the source of supply, that is, the supplier from whom the

materials are to be bought is determined. Normally, order is placed to the supplier who promises to supply the particular quality at the lowest price. In other words, order is given to the supplier who quotes the lowest price. Instead of inviting quotations, very often order is placed to a reputed or regular supplier. But it is preferable to find out newer and newer sources of supply.

(5) **Issue of Order :** After fixing up the source of supply, order is placed to the supplier. Generally, the order of the materials states the quantity, quality, type, shape of the materials, mode and time of supply etc. Moreover, prices of the materials and the mode of payment are also mentioned in the order. Letter placing the order is to be prepared carefully for it is regarded as the contract of sale. Copies of order are kept in the purchase department and these are sent to the stores, to the departments which require the materials and also to the receiving section.

(6) **Receipt of the Goods :** The buyer receives the goods when they are delivered by the seller. In a big enterprise the Receiving Section receives the materials and examines carefully the quantity, quality, type, shape etc. of the materials. It prepares a statement of materials received and then sends them to the purchase department.

(7) **Inspection of the Goods :** Whenever the goods are received, they are to be examined whether the goods have been supplied according to the sample. Normally, the duty of the inspection of goods is entrusted to the purchase department. If the goods are not sent according to the sample or lost or damaged in transit, they are returned to the supplier. In that case, a Debit Note is prepared stating therein the quantities and prices of materials returned or the allowances deducted for the damaged or lost goods. After inspection the materials are sent to the stores.

(8) **Inspection of the Invoice :** The supplier sends an invoice which states the quantities, rates, total amount payable, trade discount deducted etc. The invoice or challan is to be examined in details. Normally, [illegible] to the purchase department. If the invoice is not correct, the supplier is to be informed. That is, if the prices are charged higher than the quotations, a debit note is to be sent. Then the invoice or challan is sent to the Accounts Department.

(9) **Payment :** Finally, payment is to be made to the supplier. If the payment is made in cash, the accounts department instructs the cash department to pay cash. Normally, the cash department sends

cheque to the supplier. Besides, payment can also be made by accepting bill of exchange or issuing promissory note or by bank draft. The seller sends railway receipt, bill, challan etc. through bank or post office.

Selling Procedure

The following procedure is adopted by an enterprise for selling the products—

1. **Inviting Enquiry** : At first necessary arrangement should be made so that customers may be induced to enquire about the goods. For this purpose, advertisement is to be made in newspapers, magazines, along road side, in railway stations etc to inform the general public about the detailed particulars of the products. Itinerant sales representatives may be appointed to create customers. Sometimes, circular letters are sent to the various enterprises so that they may be lured to enquire about the goods.

2. **Reply to Enquiry** : When enquiries about the goods begin to come from probable customers, they are to be replied carefully. Replies to enquiries should be so beautiful and alluring that the probable customers may become real customers. Whether the seller can supply the goods according to the demand of the customers, if not, what equivalent goods he can supply, the price of the goods, rate of discount, when the goods are to be supplied, mode of payment etc.—all these are to be pointed out in a letter of reply to an enquiry.

3. **Sending Quotation or Tender** : Quotations or tenders should be sent to the customers immediately if the goods for which enquiries have been received are in possession of the seller or if he is in a position to procure them from the manufacturers quickly. Sometimes, the buyers invite quotations or tenders through newspapers or circular letters. In that case, responding to the advertisement, quotations or tenders should be sent promptly. Particulars of the goods, quality, rate, trade discount rate, cash discount rate, net amount payable, time of delivery of goods etc. are intimated in the quotation or tender.

4. **Receipt of the order** : When the quotation or tender is accepted by the buyer, he places order with the seller. Customers' orders are to be examined minutely to determine the type, quantity, quality etc. of the goods. Besides, when the goods are to be delivered, the mode of delivery etc. are also to be known for the purpose of procuring or producing goods accordingly.

5. **Procurement of Goods :** In the case of an industrial enterprise, production is started as soon as the orders are received. The sales department informs the works manager or the production manager about the details of the goods to be produced. After production of the goods according to the order, the production department sends them to the packing department. The duty of the packing department is to pack the goods and keep them ready for delivery. On the other hand, if the seller is not an industrial enterprise, it has to procure goods from the market. In the case of wholesale trader, he is to procure goods from different manufacturers. Similarly, retailers procure goods from different wholesalers.

6. **Delivery of Goods :** After this, goods are to be delivered to the customers as per their orders. Moreover, goods are to be delivered within a particular period, otherwise the order may be cancelled. Motor transport is utilised if the goods are sent to a nearby place. If the goods are delivered to a distant place, railway or water transport is availed of. At present, motor transport is also used for delivering goods to far off places. In the case of railway transport certain formalities are to be observed. Consignment note is to be prepared and the goods are to be delivered to the railway booking office. After receiving the goods, the railway authority issues a receipt. It is known as Railway Receipt.

7. **Preparation and sending of Invoice and other Documents :** At the time of delivery of goods, challan is to be prepared and sent to the customer. Particulars relating to the goods, that is, quantity, quality, rate, net amount payable, trade discount allowed, cash discount allowable etc. are recorded in the invoice or challan. Challan is to be prepared carefully for if there is any mistake, the seller may face difficulty in future. If the goods are delivered at a nearby place, challan is sent along with the goods. But it these are delivered to a distant place, the challan along with other documents like railway receipt, bill of exchange etc. are sent to the customer through post office or bank.

8. **Receipt of the Price :** When the seller receives the price, the transaction is closed. The buyer can pay for the goods in cash, by cheque, by bank draft, or by accepting bill of exchange or by issuing promissory note. If the seller receives any debit note from the buyer, the amount of the debit note is to be deducted in the challan. If the cash discount is allowed, the net amount is calculated after deducting the cash discount.

Questions

Essay Type

1. Purchase and sale are the critical area of the business. Discuss the statement.

[Ans. Purchase and sale—critical area of the business]

2. While purchasing commodities buyer should consider different aspects. What are these aspects ?

[Ans. Purchase and sale—critical area of the business]

3. What is Market ? Discuss its importance.

[Ans. What is Market ? Importance of Market]

4. Who are Middlemen ? What are the different classes of middlemen found between buyers and sellers ?

[Ans. Middlemen or Business Intermediary—Different Classes of Middlemen or Business Intermediaries]

5. (a) What is the importance of market in business ? Explain with reference to any local market you are acquainted with.

(b) Classify principal intermediaries between buyers and sellers. [H. S. 1979]

[Ans. Importance of Market—Different classes of middlemen or business intermediaries]

6. Discuss the role of middlemen in the distribution of commodities.

[Ans. Services and disservices rendered by middlemen]

7. What services and disservices are rendered by middlemen in the economic development of a country ?

[Ans. Services and disservices rendered by middlemen]

8. Point out the distinction among Stockholding, Speculation and Hoarding.

[Ans. Stockholding—Speculation—Hoarding]

9. What is Turnover of Stock ? How do you calculate the stock turnover in a year ?

[Ans. Turnover of stock]

10. Discuss the three essential aspects of buying-selling transaction.

[Ans. Essential Aspects of Buying-Selling Transaction]

11. (a) Distinguish between stockholding and hoarding. Explain the meaning of Turnover of stock.

(b) Discuss the three essential aspects of a buying-selling transaction. [H. S. 1978]

[Ans. Stockholding—Hoarding—Essential Aspects of Buying-Selling Transaction]

12. How different commodities used in production can be determined by stock turnover—Discuss.

[Ans. Turnover of Stock]

13. In how many ways can a seller deliver goods to a purchaser ?

[Ans. Delivery of goods]

14. In how many ways can a purchaser make payment to the seller ?

[Ans. Payment of Price]

15. What different methods of remittances are now practised in the internal trade of India ?

[Ans. Methods of Remittance]

Short Answer Type

1. What is a Bill of Exchange ? Point out the distinction between a bill of exchange and a cheque.

[Ans. Bill of Exchange—Distinction between a bill of exchange and a cheque]

2. What is Promissory Note ? Show the distinction between a promissory note and a bill of exchange.

[Ans. Promissory Note—Distinction between promissory note and bill of exchange]

3. What procedure is adopted by a business enterprise for purchasing commodities.

[Ans. Buying Procedure]

4. What procedure is adopted by a businessman for selling commodities.

[Ans. Selling Procedure]

5. Write Short Notes on—(a) Bearer cheque (b) Postal order (c) Bank Draft (d) Crossed cheque (e) Stock holding (f) Speculation (g) Hoarding (h) Trade discount and cash discount (i) Payment by instalment (j) Bill of exchange (k) Promissory Note (l) cheque (m) Quotation (n) Tender

6. What three important economic functions are performed by speculation.

[Ans. Speculation]

7. For what economic reasons stock is held in a business ?

[Ans. Stockholding]

8. What is Market ? Classify Market.

[Ans. What is Market—Classification of Markets]

9. When is ownership transferred at the time of buying and selling of goods?

[Ans. Transfer of ownership]

10. Distinguish between Instalment payment and Hire purchase system.

[Ans. Payment of Price—4th and 5th paras]

11. What is a cheque? Classify cheque.

[Ans. Remittance through Bank]

12. How is money remitted through post office?

[Ans. Remittance through Post office]

13. How is money remitted through Bank?

[Ans. Remittance through Bank]

14. What are Goods? Classify goods.

[Ans. Goods—Classification of Goods]

15. With what objectives is performance of sale function desirable?

[Critical Area—objectives of Sales]

16. With what objectives is performance of purchase function desirable?

[Ans. Objectives of Purchase]

Objective Type

1. From the following list of goods point out production and consumption goods—(a) Raw jute (b) Cotton piece goods (c) Sugar (d) Spices (e) Soap (f) Silk Fabric (g) Motor car (h) Tea (i) Appliance (j) Iron ore (k) Fertiliser (l) Wool (m) Woollen cloth (n) Type writer (o) Chair-Table.

2. In a business enterprise opening Stock is Rs. 3000, closing stock is Rs. 5000 and purchases during the year are Rs. 26,000. Find out turnover of stock in a year.

3. Give three examples each of convenience goods, shopping goods and speciality goods.

4. You have purchased goods from Delhi. How would you remit money?

5. A jute mill wants to be assured of future delivery of raw jute. What method would it follow to purchase the same?

CHAPTER V

SIZE OF BUSINESS UNIT

Small, Medium and Large Scale Business

Three types of business enterprises are found in the business world. These are—small, medium and large scale business enterprises. In a small enterprise small amount of capital is invested. So both volume of production and the amount of profit are small. Medium scale business firm invests moderate amount of capital and the production and profit are not small. On the other hand, in the large scale business unit a larger amount of capital is invested. And the production and rate of profit are greater.

Whether a particular business is to be organized on small scale or large scale, it depends on the nature of the product, extent of demand and on market. Other things being equal, the tendency of every business enterprise is to organize on large scale. Because, firstly, if the enterprise becomes large, economies of large scale production can be secured and so cost can be reduced. Secondly, in a large business unit rate of profit is increased. Thirdly, the large firm wields much economic power which brings for it social power and prestige. Fourthly, large firm can take the advantage of utilisation of modern machines that have been found out on account of advancement in science and technology. Finally, the development of transport has extended the market and created wide demand for the product.

It is very difficult to suggest any difinite standard for measuring the size of a business unit. Nature of product and methods of production in different industries so widely vary that the size cannot be measured by one single standard.

Sometimes, **volume of output** is taken as the basis for measuring the size. In respect of certain industries, particularly coal mining, sugar and cement producing homogenous or standardised products, volume of output is adopted as the standard to measure the size. But in industries like cotton, jute and woollen textiles producing various types of textile products, output is not a very effective standard for the measure of the size.

The size of a business is also measured by the amount of **capital investment.** But the amount of capital requirement and the methods of financing are so widely different in different industries that it fails to

provide any basis. A small or medium scale steel factory requires a greater amount of capital investment whereas, a large scale retail store does not need a large amount of capital.

Very often **number of workers employed** is taken as the standard. The business unit which employs a larger number of workers is called larger scale business. On the other hand, when a smaller number is employed, the business is known as small scale unit. But the number of workers necessary in a business is dependent on the nature of the product, method of production and the nature of business. Therefore this measure cannot be applied for every type of business.

Amount of raw materials or power consumed may also be adopted as a standard. The enterprise where a large quantity of raw material or power is used is regarded as large scale enterprise, and where a small amount is utilised, it is called small enterprise. But the nature of raw materials or power used in different industries so widely varies that the measure cannot be adopted generally.

In India we find three types of industries, namely, cottage and small scale, medium and large scale industries. The Fiscal commission pointed out the difference between cottage industry and small scale industry. In cottage industry manufacture is carried on by the owner himself with the help of dependents, relatives or a few hired technicians. On the other hand, small scale industry is organised on limited or unlimited liability basis and the production is carried on with the help of hired technicians, the number of which does not exceed 50. The commission further mentioned the standards of medium and large scale industries. Where in an industry, the number of workers and technicians range from 50 to 100, it is a medium scale industry and where the number exceeds 100, it is regarded as a large scale industry. But the classification of the industry in this way by means of number of workers employed is criticised in many quarters. For the requirement of workers varies from year to year and from one unit to another. At present, Government of India Classifies the industry as **where in an industry capital investment is not more than Rupees Ten lakh, it is small scale industry. Where the capital investment ranges between Rupees ten lakh and twentyfive lakh, it is regarded as medium scale and if the industry invests more than Rupees twentyfive lakh as capital, it is taken as large scale industry.**

Determination of the Size of a Firm

There are certain economic and other factors that determine the size of a business unit. These are as follows—

1. **Nature of the product and extent of demand**—Largeness or smallness of a firm depends on the nature of the product and extent of the demand for the product. Industries producing perishable commodities or artistic goods the tastes and fashions of which are subject to constant changes or dealing in products to suit individual taste like tailor's shop, goldsmith's shop etc. are usually organised on small scale. On the other hand, business units producing standardised products are likely to be operated on large scale.

If any product is demanded only in the local market, the firm dealing in such a product cannot grow in size. But firms dealing in products which are widely demanded, are usually grown larger in size.

2. **Availability of finance**—A large firm requires a large amount of capital investment. Therefore, a firm can grow in size, if it can procure necessary capital. Sole proprietorship or partnership business is not in a position to attract more capital because of its peculiar characteristics and hence cannot grow larger in size. On the other hand, a company can procure finances from various agencies and so it is usually organized on a large scale.

3. **Managerial ability**—Managerial efficiency may also determine the size of a business. A few efficient managers can easily manage a large business. But there is a limit to the managerial capacity. That is why, in sole trading or partnership business the limited managerial capacity of the sole proprietor or a few partners hinder the growth of the business.

4. **Laws of return**—Industry which faces diminishing returns very quickly cannot grow large in size. The extra economies that are generated on account of its growth are eaten away by the increasing cost. On the other hand, industry enjoying law of increasing returns can grow larger indefinitely.

5. **Risk**—A large firm can afford to take more risks and greater risks may bring in greater amount of profit. Therefore, risky business where earnings are usually high is organized on large scale. But the business unit, which is not required to undertake greater risks and thereby earns less profit, is likely to be a small scale one.

6. **Transport cost**—Greater amount of transport cost is the inhibiting factor for the growth of a firm. If the growth of a business requires the payment of high transport cost for carrying raw materials from distant places and delivering finished products to the distant market, it is better for such a firm to remain smaller in size. If an iron and steel plant is required to incur high transport cost for procuring coal and iron

from distant places, it is better for the plant to remain medium sized one depending on the supply of local coal and iron ore.

7. **Government regulations**—Government policies are, sometimes, responsible for the growth of many firms. In our country, the Central Government initiated the amalgamation of small collieries located in the Eastern part of India. Moreover, the Government, now-a-days, issues licences to such firms which conform to certain standard of size.

8. **Momentum of the early start**—If in a place where a particular industry is localised, majority of the firms are organised on large scale, smaller firms operating there cannot but grow larger in size.

Economic and Social significance of different sizes

Economic Significance of Large and Small Firms

Merits of Large Business and Demerits of Small Business

All business enterprises, whether big or small, enjoy more or less certain advantages. But a large business secures certain economies of large scale production which cannot be obtained in small firms. Economies of large scale production are classified as—(a) Internal Economies and (b) External Economies.

Economies which are secured on account of the growth of a firm are called Internal Economies. On the other hand, the economies which certain business firms engaged in the same industry enjoy on account of the location of the industry are known as external Economies. For example, jute mills along the Hooghly basin in West Bengal enjoy certain economic advantages like availability of raw materials, nearness to market, Calcutta and Haldia ports, improved transport etc. All these are external economies.

Internal economies of large scale business are as follows—

(a) **Economies in Production**—The important advantage of large scale production is that it can afford to introduce machinery which may bring down cost per unit. The whole process of production can be divided into small operations. Thus the division of labour may allow the large firm to use machinery for performing the smaller operations. The machines can also produce standard and quality products, of course, best quality raw materials must also be purchased. A large firm can purchase quality materials on favourable terms. The supplier may grant concession for bulk purchases of raw materials and the concessions in freights and fares can also be obtained from transport companies. By-products can be utilised by

effecting ancillary operations and thus wastages can be eliminated. A large firm can conduct researches for all round improvement and for finding out new varieties. Machinery can be operated at the maximum capacity and labour efficiency can be improved and utilised to a great extent. All these may bring about a reduction in the cost of production.

On the other hand, a small firm cannot afford to introduce machinery for its capital investment is small. Division of labour cannot be introduced and by-products cannot also be utilised. That is why, cost of production in a small firm is relatively high.

(b) **Economies in Management.**—A large firm can afford to appoint expert managers to look after different facets of management. Expert Salesmen, Accountant, Personnel Officer, Production Managers etc. are appointed and each expert may be entrusted with the responsibility of managing a particular department. The managerial efficiency of the experts may reduce managerial cost per unit. Better organisation structure can be built up and so the managerial functions can be performed smoothly. Better control can be achieved and controlling of patents and trade marks and the cost control can also be effected.

Small firms cannot afford to appoint expert managers. Therefore, managerial economies are not available to a small firm.

(c) **Financial Economies.**—A large firm can get loans and advances from commercial banks or other agencies on favourable terms and conditions, as it can offer greater security and as it usually gains reputation in the market. It can afford to appoint financial expert. The capital can be utilised with the best advantage and thereby earnings can usually be increased. Since profit of a large firm is usually high, a part of the profit may be invested again in the business as capital. Financial resources may allow a large firm to do business and survive even during the period of depression. A large firm on account of its monopoly position can realise the debts quickly and so the amount of bad debts is likely to be less.

But small firms cannot secure loans from different agencies on favourable terms as they have not sufficient assets to offer as security against loan. They have to borrow on higher rate of interest.

(d) **Economies in Marketing.**—A large firm can afford to engage expert sales manager and hence the whole selling operation can be conducted efficiently. This may result in economies by reducing marketing cost. It usually sells commodities in large quantities and thereby reduces selling expenses per unit. By means of advertisement, the burden of which is proportionately low with the increase in sales-

volume, it can increase sale proceeds. It can maintain branches and agencies for the distribution of goods. The transport companies can also offer concessions as they get bulk offers from the large firms.

A large firm can also buy materials in large quantity. Suppliers usually offer concessions to a large firm for they get big orders from a large firm. Moreover, a large firm can appoint expert purchase manager to buy necessary things judiciously and economically.

But a small firm cannot enjoy all these marketing economies.

(e) **Less Risk**—Risks in a large firm can also be minimised. Risks in a large firm can be minimised as it sells different varieties in different markets. Losses incurred in selling commodities in one market may be compensated by making profit in another. Moreover. as the large firm is organized very often as a limited company, it can spread the risks over a large number of shareholders.

Merits of Small scale Business and Demerits of large scale Business

Although a large firm enjoys economies and produces commodities at lower cost, it suffers from certain disadvantages. They are as follows—

1. Largeness of a firm depends on the nature of the product, extent of demand and on market. A firm dealing in perishable commodities is usually organized on a small scale as the commodities cannot be carried to distant markets and hence are sold in the local market. If the commodities are demanded only in the local market, firms dealing in such commodities have got no scope to grow in size. Small firms are very suitable in the above cases.

2. A large firm is unsuitable to produce artistic goods, the tastes and fashions of which are subject to constant changes or to deal in products to suit individual tastes. If the customers of any business need workmanship or personal skill and are widely scattered, a small firm is suitable to satisfy the needs of those customers.

3. There is a limit to the growth of a firm, the expansion beyond which may not generate economies. Rather, costs may be increased and the sale-proceeds are reduced. The forces that hinder the growth may at the same time allow the small firms to exist. Managerial incapacity, lack of co-ordination, diminishing returns and increasing selling cost are the limiting forces.

4. A large firm cannot quickly adjust with the changing market conditions. It can not also withstand technological changes in production techinque that may be brought about on account of changes in tastes and fashions. Neither it can increase nor decrease production

in accordance with the market conditions. A small firm can suitably adjust with all these changes.

5. Difficulties in getting finance may stand in the way of expansion. Moreover, higher interest rates offered by the firm for procuring necessary capital may not be justified by the extra economies to be enjoyed by it.

6. Strikes and lock-outs are always associated with the large firms. Managers of a large firm cannot establish direct relation with the employees and, as a result, they do not know the actual grievances of their employees. The labour unrest reduces production and contributes nothing towards bringing down the cost of production. All these difficulties are not experienced in small firms.

7. The development of cottage and small scale industry is desirable for the purpose of mitigating unemployment problem. Cottage and small scale industry is a labour intensive industry as it absorbs more men and not machinery. That is why, importance has now been given on the development of small scale industry in the developing countries for solving the unemployment problem. It not only fosters self-employment but also creates employment opportunities. But a large industry is a capital intensive industry as it absorbs more machinery and not men.

8. Development of large scale industry has led to the localisation of industry in India. This prevents the regional development of industries. But small scale industry is regionally developed and hence it can lead to dispersal of industries.

Social Significance of Large scale Business

Social advantages and disadvantages of large scale business are enumerated as follows—

Advantages

All the three types of industries namely, small, medium and large have got importance in every country. But the development of large scale industry has been given greater importance in both the developed and in the developing countries. Because (1) large scale industry **increases production**. In almost all the countries of the world large scale industries have been developed and are being developed. For large scale industry can produce on a mass scale. Governments of the developing countries are encouraging the development of large scale industries. In India basic and key industries have been develop-

ed in the public sector. These industries are always organized on a large scale. At present the Central Government is providing various facilities particularly, to the export industries, so that these industries can increase their scale of operation and become large scale industry. Moreover, big industries are in a position to use modern machinery and technology. Utilisation of modern machinery has increased production of these industries tremendously. Even in agriculture use of modern machine has increased production to a great extent. Of course, mass production and world wide market are now making practicable large scale production. In India large scale industries contribute 24% of the national income. (2) Large enterprises in several countries have an important role in **providing employment opportunities.** In the big industrial and commercial enterprises many people can be absorbed. A few thousands can get jobs in a large enterprise. In India about 9 percent of the total population are engaged in different industries. In other words, five crores of people are now engaged in the industrial sector. Of these only thirty three lakh people are engaged in cottage and small industry and the remaining in the large industry. Thousands and thousands of people have got jobs in public sector undertakings like steel factories in Rourkela, Bhilai, Durgapur and Bokaro, Heavy Engineering Corporation, Bharat Heavy Electricals Ltd., Chittaranjan Locomotive Works etc. Besides, Government commercial enterprises like Indian Railways, Post and Telegraphs and different fertiliser factories have absorbed lakhs of people. In Indian Railways about fourteen lakhs are engaged. In the private sector undertakings also like Tata Iron & Steel Company etc. thousands of people have been engaged.

(3) Large scale enterprises provide greater scope for **utilising modern machinery and technology.** Big enterprises invest larger amount of capital. So they can afford to buy modern machinery and can use modern and improved technology in production. Small enterprises cannot afford to use modern machinery and technology.

(4) Large enterprises can also **reduce cost of production.** Hence they can sell their products at cheaper prices. Since big industries can secure economies of large scale production, they can reduce the cost of production per unit. Besides, they can sell their products on mass scale for they sell quality products at cheaper prices.

(5) Buyers can also **improve their standard of living** for they are in a position to buy better quality products at cheaper prices. In the past people belonging to the lower and middle income groups could not buy those commodities which they are now able to buy at cheaper prices.

(6) Big enterprises are now innovating newer varieties of products by means of **product research and market research.** They are producing also new products. As a result, they can satisfy the demand for newer varieties and the changing tastes and fashions.

(7) International trade and commerce has been developed on account of the establishment of large enterprises. Since large quantities are exported and imported at a time in international business, only big enterprises can participate in such large dealings.

Disadvantages

Though large enterprises have social advantages, certain social evils are also noticed on account of the development of large scale industries. These are—(1) Large enterprises **develop monopoly business.** Small enterprises cannot compete with the large ones in the market. Big enterprises get bigger and bigger by absorbing smaller enterprises and become monopoly organisations. (2) Monopolist is the only supplier of a product in the market and so he normally sells his product at higher prices. High prices being in **immense hardship to general consumers.** Moreover, workers do not get fair and adequate wages. Suppliers of materials and ancillary products are forced to sell their products at cheaper prices. They do not also get adequate prices for their products. (3) Development of monopoly business causes the **concentration of wealth and economic power in the hands of a few industrialists and businessmen.** This increases the disparities in income and wealth. As a result, **every country requires big business but not big businessman or monopolist.** Particularly, India is trying to follow this policy. India wants to develop socialistic pattern of society. It means gradual reduction of disparities in income and wealth. For this purpose, Government of India has enacted **Monopoly and Restrictive Trade Practices Act** (or MRTP) to control the development of monopoly organisations in India. (3) Big enterprises **cannot also provide job opportunities to a large number of persons.** These enterprises absorb more machinery and not men for they are capital intensive industries. On the other hand, small enterprises absorb more men for they cannot afford to buy machinery. (4) Large enterprises causes **regional imbalance** by means of localisation of industry which is responsible for certain social evils, namely, congestion, slums, smog, insanitary condition etc.

Social Significance of Small and Cottage Industries

In the developed and developing countries as well not only big industries have been developed but equal importance has been given on the development of cottage and small industries. For example, in Japan greater importance is given on cottage and small industries. The industrial structure of Japan is so designed that small and cottage industries can get particular importance. For example, in Japan small machine parts of automobile, locomotive and steamship are manufactured on cottage scale. But these are assembled in large scale industries to get finished cars, locomotives and ships. Similarly, in cotton textile industry spinning is done in large industries but cloths are woven **in cottage and small industries.**

In India too, importance is given to the development of small and cottage industry. It has special significance in domestic output and employment. It is estimated that about 50% of the total production comes from cottage and small industry in India. In cases of certain articles entire production comes from cottage industry. **In 1971 total production in cottage and small industry was Rupees 4,100 crore. It has employed thirty three lakhs of persons. Fixed assets of this industry are 475 crores of Rupees. And the ratio of capital to production is 1: 8·50.. It means that when Rupee one is invested as capital, commodities of the value of Rs. 8.50 can be produced.**

Besides, big industries for their own interest should encourage the growth of small industries. It is neither practicable nor profitable for the big enterprise to produce small machine parts, machine tools, essential raw materials etc. Small industries, particularly in our country, manufacture machinery, machine parts, small machine tools, raw materials, ancillary appliances etc. and supply them to large industries. Secondly, these industries are labour intensive as they employ more men. That is why, **in India's industrial policy of 1977 greater emphasis has been given on the development of cottage and small scale industries mainly for the purpose of mitigating unemployment problem.** It does not mean that the development of large industries will be impaired. On the contrary, it has been declared categorically in the industrial policy by the Government of India that the large enterprises would endeavour to develop cottage and small scale industries.

In the villages of our country blacksmiths, goldsmiths, weavers, potters, cobblers, braziers, conch shell makers have been producing various articles from generation to generation. These cottage products have earned world-wide reputation. In the past India exported many cottage-made luxury products to foreign countries, namely, muslin of

Dacca, ivory articles, gold ornaments etc. India maintains still at present this age-old tradition and exports various articles manufactured by village artisans to many countries of the world. Of these, hand-loom fabrics are very important. All the members of the artisan family participate in production. In this way, they can employ themselves instead of seeking employment elsewhere.

Orgainzed and Unorganized Sectors

Business enterprises which are registered and managed in accordance with the provisions of any act of a country constitute the **organized sector** of business. On the other hand, enterprises which are not registered and managed by the provisions of any law belong to the **unorganized sector.**

India has two types of business undertakings, namely, private sector undertaking and public sector undertaking. Of the private sector enterprises, joint stock companies are regarded as the organized sector. Companies jn India are managed by a definite method. They have to submit for registration two important documents, namely, memorandum of association and articles of association to the Registrar of companies. And the companies are managed according to the rules and regulations provided in these two documents. Companies are formed according to the provisions of the company law and they are closed down also according to the provisions of company law. Two types of companies are generally registered in India, namely, public limited company and private limited company.

On the other hand, sole-proprietorship concerns and partnership firms are not managed by any definite method. Sole-proprietorship concern is not registered and its business is not controlled by any law. Registration is not compulsory in the case of partnership firm. Its business is also not governed by any act. Of course, the business relation among the partners is governed by the partnership act. These enterprises form the unorganized or non-organized sector.

Registration of co-operative association is .also not compulsory. But if it likes to be registered, it has to prepare and submit bye-laws to the Registrar of co-operative societies. It is registered according to the co-operative societies act. Its business is managed in accordance with the rules and regulations mentioned in its bye-laws. Hence, it is included in the organized sector. co-operative society is constituted not for making profit but for providing welfare to the members of the society.

Still another form of business is found in the private sector in India. It is Hindu Joint Family Business. It is not required to be registered and it is also not controlled by any law. Therefore, it belongs to the unorganized sector.

Public sector undertakings are all included in the organized sector. State enterprises are organized in four ways, namely, departmental organizations—they are managed by government departments according to a particular method. Examples of departmental organization are Posts and Telegraphs, All India Radio etc. Secondly, board management, the examples of which are state Electricity Board, Railway Board etc. They are also administered like departmental organization. Thirdly, public corporation and its examples are Damodar Valley Corporation, Indian Airlines Corporation etc. They are established by a special statute. They are also administered by a definite method provided in the special statute. Lastly, government company and the examples of it are Hindusthan Steel Limited, Hindusthan Machine Tools Limited etc. These government companies are registered according to the company law and they are also managed in accordance with their memorandum and articles of associations.

Normally large industrial and commercial enterprises are organized as companies and so they form the organized business sector of the country. Every company is required to furnish various information in respect of the business by submitting annual returns to the Registrar. That is why, various business information and statistics in respect of the organized sector can easily be obtained.

On the other hand, blacksmiths, goldsmiths, weavers, cobblers, braziers, conch shell makers etc. in the villages, retailers like grocery shops, stationery shops, cloth shops, etc. in the cities and medium scale enterprises like engineering factories, soap factories, bakers' shops etc. are all organized as sole-proprietorship or partnership concerns and hence they form the unorganized business sector of the country. These business enterprises are not required to submit any annual returns or any information to anybody. That is why, business information in respect of them can not be obtained easily.

What is Mixed Economy ?

At present three economic systems are found in this world. These are **Capitalism**, **Socialism** and **Mixed Economic System.**

In **Capitalism** private initiative and enterprise is given greater importance. Trade, industry and commerce are developed by individuals and companies. In otherwords, an individual establishes and

develops business enterprises, invests capital and enjoys the entire profit. As there is the competition, businessmen try to reduce the cost of production by efficient management of the business, improve the product standard and create demand by innovating new varieties of products. In this economic system business enterprises enjoy maximum freedom. It means they can produce and sell any commodities they like and can make maximum profit. That is why, this economic system is known as **Free enterprise economy.** On the other hand, buyers are free to buy any commodities. There is no state control over consumption. Since there is the competition among the buyers, tendency of the prices is to go up. Finally, price is fixed by the interaction of the activities of buyers and sellers, that is, demand for and supply of commodities. This price is known as just price. This competitive price can give maximum benefit both to the buyer and seller. There is hardly any state control over trade, industry and commerce. But this system brings in disparity in the distribution of income and wealth. And the wealth is concentrated in the hands of a few industrialists.

Socialism encourages state control over trade, industry and commerce. In many socialist states private properties and enterprise do not exist at all. Production, distribution and consumption are all controlled by state. It means state establishes and develops business enterprises, invests capital and enjoys the entire profit. This system reduces the disparity in the distribution of income and wealth and prevents concentration of wealth in the hands of a few industrialists and traders. But in this system unlike capitalism high rate of productivity is not found and the business enterprises suffer from managerial inefficiency.

Still there is another economic system which takes the advantages of both capitalism and socialism. Both the private and public ownerships exist side and side in this system and both the public and private sectors participate in the economic development of the country. This is **Mixed Economic System.** In this system industrial and commercial enterprises are developed not only in the private sector, they are also sponsored and developed by the Government. Though like capitalist states price and market systems are prevalent, state control is also noticed. Again, commercial and industrial enterprises in the private sector enjoy freedom in the production and distribution of commodities and services but sometimes their activities are controlled and regulated by the Government. Certain basic and key industries and industries of national importance are developed particularly by the Government for providing infra-structural facilities for economic development. Therefore, the **economy where both public and private sectors exist**

side by side and participate in the economic development of the country for realising certain national objectives is known as Mixed Economic system.

This economy is also known as **planned** or **controlled** or **managed** economy as the economic development is made by undertaking central plan, like five year plan. At present in the capitalist states mixed economy is being followed. Even in the U. S. A., the U. K., Japan, West Germany and in the Western European countries state control is found. In all these countries industries of national importance are now controlled by the Government.

Private Sector

Private sector means and includes business enterprises which are owned and managed by individuals. In the private sector individual establishes business, invests capital and enjoys the profit of the business. Tata Iron and Steel Company, Bata Shoe Company and various other private and public limited companies, partnership and sole-proprietorship concerns are examples of the private sector.

The important advantage of the private enterprise is its managerial efficiency. Profit making is the prime motive of the business firms in the private sector. In other words, a private firm exists so long as it makes profit. That is why, the managers of the private firms remain always alert and utilise their intelligence for the success and survival of the business. In the context of the present economic condition in India when importance is given on the development of heavy and basic industries, the private sector may effectively be utilised for the development of the consumption goods industries which are less risky ventures and do not require a greater amount of capital. The private sector includes also small farmers and artisans. They should be allowed to develop labour intensive cottage and small scale industry. In this way, self employment may be encouraged to mitigate unemployment problem.

But the private sector suffers from certain disadvantages. Firstly, it is always guided by the profit motive and undertakes those business ventures which are immediately profitable. Secondly, it leads to the growth of monopolies and helps concentration of wealth in the hands of a few monopolists. Hence, disparities in income and wealth are widened. Thirdly, everything is undertaken in the private sector to suit private purpose and gain and the private interests stand above everything. Fourthly, development of heavy and basic industries which are not immediately profitable now requires so huge amount of capital that a private entrepreneur cannot supply. But these are key industries

and must necessarily be established for the development of other industries.

Public Sector

Industrial and commercial enterprises which are owned and managed by the Government form the public sector. These enterprises which are run by the Government are known as public or Government or state enterprises. Government establishes this undertaking, invests capital and takes the profit. Various enterprises are now owned and managed by the Central Government. These enterprises are popularly described as Government of India undertakings. Similarly, certain enterprises are owned and their affairs are conducted by the state governments. Durgapur Chemicals Limited is a business venture of the West Bengal Government and so it is described as Government of West Bengal undertaking. Public enterprises are now organised as (1) Government department, namely, Posts and Telegraphs Dept., All India Radio etc. (2) Board management like Railway Board, State Electricity Board etc. (3) Public corporation, examples of which are Damodar Valley Corporation, Indian Airlines Corporation, Life Insurance Corporation etc. (4) Limited Company—both private and public namely, Hindusthan Steel Limited, Hindusthan Machine Tools Ltd., Bharat Heavy Electricals Private Ltd., etc.

The purposes of the public sector are (1) to establish basic and key industries which require huge capital investment in the public sector ; (2) to check growth of monopolies in the private sector ; (3) to promote socialistic pattern of society ; (4) to reduce disparity in the distribution of income and wealth and (5) to restrict regional imbalance and localisation of industries.

At the time of independence in 1947 there were only five state undertakings operating in India. At present, more than two hundred units are operating throughout the length and breadth of the country. And about 20,000 crores of rupees have been invested in the public sector.

The advantages of public enterprises may be summed up as follows—(a) the motive of any public enterprise is not to make profit but to deliver goods and render services to the nation at reasonable prices. (b) It can encourage regional development of industries as the government can decentralise industrial development through the establishment of public enterprises in those areas which are economically backward. (c) It reduces the disparities in income and wealth and prevents concentration of wealth in the hands of a few monopolists. (d) The motive of public enterprises is not to make profit but to look

after social interest. National interest and not the private gain stands above everything in any type of state venture. (e) Development of heavy and basic industries requires so huge amount of capital that only state can develop such industries. (f) Public enterprises are also necessary in those cases where private enterpreneurs cannot show their worth and enterprises are run inefficiently and simply to suit private purposes. (g) Although profit making is not the motive of the public undertakings, it does not mean that public enterprises do not make profit. This profit may, therefore, increase the revenues of the state.

But the public enterprises bring in certain dangers. These are—(1) Since there is no profit motive, managerial inefficiency is very often crept in. (2) Though autonomy is granted to the public enterprises governmental intervention brings in bureaucratic administration. (3) Bureaucratic control brings in red tapism and favouritism and stands in the way of the efficient management of the enterprise. (4) Public enterprises are accused of having top heavy administration and whatever profit these enterprises make is eaten away by the ever-increasing managerial cost.

Features of Mixed Economy followed in India

Since independence in 1947 Government of India has been following the mixed economic system. The Government announced its industrial policy first in 1948. In the policy the responsibility of industrial development was entrusted to both the public and private sectors. But the policy statement was made long before the taking of development planning and hence there was no co-ordination between the policy statement and the plan of development. Considering this lack of co-ordination the Government cancelled the old policy and announced a new policy in 1956. The basic structure of this policy is still being followed though minor modifications were made in 1973 and 1977.

The following are the important features of mixed economy followed in India—

(1) Co-existence of the Public and Private Sectors—The policy resolution of 1956 declared three categories of industries. The first category includes iron and steel, mineral oil etc. The policy of the Government in respect of these industries is that the establishment of the new units would be the responsibility of the Government only. But the existing companies under the private sector

operating in these industries are allowed to develop and expand. The development and expansion of industries under second category, which includes chemical, synthetic rubber etc., would be the responsibility of both the public and the private sectors. But these industries would be progressively state owned. The development of industries under third category which includes remaining industries, is left to the care and initiative of the private sector subject to control and regulation by the Government.

It is now clear that both the public and private sectors are operating side by side in the industrial sector of India.

(2) Gradual Extension of the Public Sector—The purpose behind the introduction of mixed economy in India is to usher in a new social order, that is, socialistic pattern of society. That is why, in India mixed economy is governed by the socialistic pattern of society. It means the gradual extension of the public sector. The development of the public sector would reduce the disparity in the distribution of income and wealth. Public sector would, henceforth, provide leadership in the matter of economic development of our country.

(3) State Control over Private Enterprises—Government has been trying to develop a socialistic pattern of society wherein the public sector has been assigned a dominating role. Private sector has also been given a definite share in the economic development of the country. But the private sector is now under the control and regulation of the Government. The industries (Development and Regulation) Act, 1951 has been enacted to regulate and control private enterprises. The Government controls private enterprises as it wants to regulate and mould the whole pattern of industrial development.

(4) Government Control over Joint Stock Companies—Joint Stock Companies, both public and private, are now regarded as the backbone of the private sector in our country. On account of the Government's policy to control the private sector, provisions have been made in the Companies Act, 1956 to regulate the affairs of public limited companies. A public limited company cannot alter memorandum and appoint executives without the approval of the Central Government. Moreover, the Central Government can order investigation into the affairs of any company. Registration of companies by the Government also imparts control over joint stock companies

(5) Investment both in the Public and the Private Sectors—Plan-investments have been made both in the public and the private sectors. During the period of first Five Year Plan which was primarily an agricultural plan, investments were made more in the private sector.

In subsequent Five Year Plans, investments in the public sector have been increased on account of Government's policy to extend the operational field of the public sector.

(6) Social Security Measures—The Government has taken various measures for providing comfort, relief and adequate wages to the workers. Factories Act. Industrial Disputes Act, Minimum Wages Act and Employees States Insurance Act are examples of security measures provided by the Government

(7) Progressive Taxation—In a socialistic pattern of society everybody should get equal opportunity. Wealth and income should be distributed equally. For this purpose, progressive taxation has now been introduced. Income Tax, Wealth Tax, Expenditures Tax are the examples of progressive taxation.

(8) State Control over Foreign Trade—Free trade policy has now been abandoned and imports and exports have been controlled by the Government. The Government is regulating foreign trade for the purpose of providing developmental facilities to the home industries and controlling foreign exchange earning. Moreover, it has established State Trading Corporation for direct participation in foreign trade.

(9) Joint Sector—The concept of joint sector has now been emphasised for promoting expeditious economic growth and achieving greater efficiency in the management of the public enterprises. It refers to the public-private joint deal. It is a type of joint venture where both the Government and the private firms will participate for increasing production. It has now been decided that the Government will invite the private firms to participate in the establishment and management of the business enterprises the capital of which will be contributed by both the Government and the private firms.

(10) Restriction on the Growth of Monopolies—The Industrial Policy of 1956 was slightly modified in 1973. The modification particularly emphasises that the restriction should be imposed on the growth of monopolies in the private sector. Care should now be taken in issuing industrial licences to the big firms to check monopolies in the private sector.

Joint Sector

Both the public and private sectors have their respective merits and demerits. The private sector is guided by the profit motive but a high standard of managerial efficiency is noticed in this sector. On the otherhand, though the public sector delivers goods and renders services at reasonable prices and upholds social interest, it suffers very often from managerial inefficiency. As the profit making is the prime

motive of the private firms, managerial efficiency is necessary in these enterprises. Public enterprises are sustaining losses as the affairs of these enterprises are not managed efficiently. That is why, joint sector has been introduced in India to reap the merits of both the public and private sectors.

Business enterprises owned and managed jointly by the Government and individuals constitute the Joint Sector. These are the enterprises of mixed ownership type. It is a public-private joint deal. In the joint sector undertaking both the government and individuals contribute capital and nominate managers or directors. Particularly, the managers or directors who have shown their intelligence and acumen in the administration of private firms are preferred in the joint undertaking. It is expected that the enterprises in the joint sector will be able to combine what is best in the private with what is best in the public. The joint sector may be able to deliver goods and render services at cheaper prices and at the sametime the affairs of the joint enterprises can be managed efficiently.

The Government of India appointed a committee known as Subimal Dutta Committee to reconsider the licensing system in India. This committee has recommended the introduction of joint sector for economic development. The concept of joint sector the committee has given us is (a) by converting loans and advances granted by the special finance and development corporations to the private sector undertakings into equity shares Government can become a shareholder of all these undertakings and in this way joint sector can be introduced. (b) Secondly, the undertakings, the capitals of which have been contributed both by the Government and individuals and where Government has participated in the management, may be included in the joint sector. (c) Thirdly, industries included in the second and third categories of the industrial policy resolution of 1956 should be developed in the joint sector for preventing concentration of economic power. The Government has accepted the recommendations of the committee. It has now been decided to develop industries in the joint sector for realising social and economic objectives. But the establishment of industries, for which permission has not been given to the private sector should not be made in the joint sector.

It has now been decided that the Government would now invite the private firms to participate in the establishment and management of public enterprises. The private firms would contribute to the share capital of such enterprises and would also supply technical

know-how and managerial talents. In this way, both public and private initiatives by their joint efforts may help to increase the growth rate and remove the economic ills in various ways.

The Central Government has decided to create and extend the joint sector by the establishment of enterprises the capital of which would be contributed by both the public and private sectors. It means that 51% of the share capital of such an enterprise would be subscribed by the Government and the remaining 49% would be contributed by the private firms. In other words, enterprises of the mixed ownership type are now under active consideration of the Government.

Secondly, the Government may also sponsor enterprises the share capital of which will be contributed by the Government, by the private firms and by the members of the public. It signifies that 25% of the share capital of such enterprises will be contributed by the Government, 30% of the share capital will be subscribed by the private firms and the remaining 45% will be contributed by the members of the public. In fact, the Government has already extended invitations to the private firms in the matter of establishment of a mini steel plant in the Purulia district of West Bengal. In the matter of distribution of certain essential commodities also like sugar, cement, paper, textiles etc. the Government is considering to utilise the joint efforts of both the **private and public sectors.**

Thirdly, the joint sector may also be established by allowing reput .' and important private firms to manage the affairs of the public enterprises. Few years ago the Scindia Steam Navigation Company was entrusted the management of Shipping Corporation sponsored by the Central Government.

Joint sector may be regarded as the extension of the mixed economy from the macro level (industry wise) to the micro level (enterprise wise).

It has been claimed that the concept of the joint sector has been included in the industrial ·licy announced in 1956. The government has pointed out that both these sectors must function by helping each other to ensure best uses of resources. The two sectors have to function in unison and are to be viewed as parts of a single mechanism.

Foreign Collaboration

A new trend in the combination movement in India has been noticed in the establishment of Indian business with foreign collaboration. A large number of combines were formed by collaboration of foreign enterprises with Indian business units in the past, particularly

after the second world war. Recently joint deals have been encouraged and they are found both in the private sector and at the same time in the public sector. The Government is also inviting foreign assistance for the purpose of development of the industry in the public sector.

Joint deals are found in large number in the automobile industry. Hindusthan Motors Ltd. was formed as a result of Birla Nuffield motor deal. Tata Engineering & Locomotive Co. has also undertaken Tata Mercedez Benz joint deal for manufacturing diesel trucks. Premier Automibile Works of Bombay has been established as a result of the agreement between Chrysler Corporation of the U.S.A. and Walchand Hirachand. Similarly, Ashok Motors Ltd. was established in collaboration with Austin Motors.

In other Industries joint enterprises are also noticed. Voltas Ltd. (Tata and Volkart Bros. joint deal) Sen Raleigh, Hindusthan Pilkington Glass Co., ACC-Babcock Vickers, National Rayon Corporation are some of the examples of joint enterprises. Recently, an Indo-Japanese joint enterprise has been established for manufacturing watches.

In the public sector the Central Government entered into an agreement with a German firm Krupps Demag for the establishment of Iron Steel Plant at Rourkela. It invited the Russian technical assistance for installing Iron & Steel Plant at Bhilai and entered into an agreement with a British Steel Consortium for the plant at Durgapur. Similarly, it established Machine Tools Factory in collaboration with a Swiss firm. The Government has also invited Italian collaboration for the construction of pipelines in the Eastern India. And the Idro Carbouri of Italy is giving much help in this respect.

Besides, joint enterprises with collaboration from Holland, Sweden, Denmark, Belgium, Australia, Poland, East Germany, etc. have also been established.

The Central Government has declared three categories of industries in which cases foreign collaboration would be invited. In the cases of industries included in the first category both foreign technical collaboration and investment of foreign capital will be permitted. For industries of second category the Government would allow only the foreign technical collaboration And in cases of industries included in the third category neither foreign technical collaboration nor foreign capital investment would be allowed.

Foreign technical collaboration and capital investment have been permitted only in the development of those industries in which cases indigenous capital and technical know-how are not available. On the other hand, for the development of those industries adequate capital

can be obtained from the public and private investment agencies but technical know-how is not available within the country, only foreign technical collaboration is permissible. But in cases of industries for the development of which both capital and technical know-how are available within the country, neither technical collaboration nor capital investment from the foreign countries is permitted.

In 1965 the Reserve Bank of India conducted a study to find out the magnitude of foreign technical co-operation and capital investment in Indian industries. The study included the foreign collaboration for the period from 1960 to 1964. It also arranged for a second study for a period from 1964 to 1970. According to the study 70 per cent of the foreign collaboration and capital comes from the U.K., the U.S.A. and West Germany. Of this, 35 per cent comes from the U.K., 20 per cent from the U.S.A., and 15 per cent from West Germany. Among the industries where foreign technical co-operation and capital are sought the important are machine building, electrical, chemical, machine parts manufacturing, metal and metal products, engineering, etc.

Joint enterprises have been looked down in certain quarters on the ground that the illegitimate marriages between Indian and foreign enterprises may create a new vested interests in our country. Foreigners may in a new form exploit Indian consumers.

Moreover, increasing collaboration from the foreign countries may not encourage self-reliance which is desirable for the economic growth of any country. It may not also induce increasing exploitation of the latent resources of the country which should be mobilised for producing new varieties of products for combating inflation. Runway inflation has now been manifested increasingly in our developing economy and this inflation can be removed by the rapid increase of production rate. At the time of war the country getting collaboration from the foreign countries may face tremendous difficulties as the foreign countries involved in war may not provide such collaboration. Only big business is in a better position to invite foreign companies to participate in the trade venture and so the collaboration will simply strengthen the big business and will help the growth of monopolies. Lastly, market in India for the home products may be narrowed to a great extent on account of 'craze for foreign' which may be developed due to increasing foreign collaboration.

Against these, it can be said that no country can be developed without the foreign helps. Particularly, in our country when we are trying to develop industries as quickly as possible to remove poverty, foreign collaboration may go a long way towards achieving the desir-

ed result. Secondly, increasing participation of the foreign companies in Indian industries may create a confidence among Indian investors and hence equity capital can easily be secured for the growth of industries. Thirdly, Indian can get wide varieties of technical assistances and expertise from different foreign countries. Lastly, production of various better quality products under foreign help may explore the possibilities of getting export market in the foreign countries. But at the same time the Government should take necessary precaution so that foreign assistance may not bring any exploitation.

Consultancy Services

Managers of the business enterprise have to face various problems in their effort to manage the affairs of the business smoothly. Besides, they have to solve complex problems in bringing about changes in the organisation structure to adjust with changing conditions in the market. For this they have to consult experts or specialists. In the big organisation expert or specialist managers are appointed. And the top managers take advice from the specialist-managers to take decisions on various matters of the enterprise. For example, **Legal Adviser** gives advice on all legal matters. Likewise **Accountant** who is entrusted with the responsibility of recording books of account gives advice to the top management on account matters. Similarly. **Research and Development officer** is consulted whenever any problem arises in respect of finding out any new variety. Even then the managers have to depend on some consultancy firms to solve even more complex problems. They have to depend on **Audit firm** for accounting and audit matters, on **Solicitors' Firm** to take advice on any legal problems, on **Engineering Firm** in their bid to bring about solution of engineering problems. Similarly, some specialised organisations are consulted whenever the managers face certain complex managerial problems. These organisations are, at present, known as **Management consultancy Firms**, These enterprises provide consultancy services to various business firms. In other words, whenever any complex managerial problem arises in a business firm, the managers of the enterprise get advice from the consultancy firm or get their problem solved by this firm.

The consultancy firm investigates the affairs of the business firm to study the managerial problems faced by it. In other words, what is the nature of organisation, what is the nature of production technique and process, how are the different types of managerial activities performed at different levels of management, examination of the business transctions of last few years, quantum and value of assets, how are

they used, extent of finished stock and stock of raw materials normally kept, classes of machinery and ancillary appliances used and the nature of their uses—all these are enquired and observed carefully to study the real managerial problem of the firm. After studying the problem carefully, a report of the exact problem and solution thereto is submitted to the management or the board of directors. Sometimes, the board appoints the consultancy firm to bring about changes in the management in line with its recommendation.

Besides the meeting of various managerial problems, the consultancy firm is engaged to entrust it the selection of right managers for different managerial posts. Very often its advice is sought in respect of the selection of different top managers.

The small and medium scale enterprises cannot afford to appoint expert managers. They seek the advice from the consultancy firm to meet the problems they face in the day to day management. Sometimes, the consultancy firm is engaged on monthly or yearly fee to get regular advice and recommendation from it.

In the past in India the managing agents supplied the managers and entrepreneurs to their managed companies. They undertook the management of various companies at a time and in this way they supplied the managerial talents. In India at that time there was severe shortage of managerial talents and dynamic entrepreneurship. Later when malpractices were crept into the system, Government of India abolished the managing agency system altogether. After the abolition of the managing agency system the management consultancy firms have taken their place. These firms are now supplying the managerial talents and dynamic entrepreneurship by providing management consultancy services to various enterprises.

Different Aspects of a Manufacturing Industry

1. Technical Aspect

Before the industrial revolution agriculture was the primary occupation of the people. Most of the people depended on agriculture. It does not mean industrial goods were not produced at all at that time. In the cities and villages industrial goods were produced with the help of hand tools. After industrial revolution production technique has been radically changed. As a result of the utilisation of the inanimate energy power driven machines are used instead of handtools. At present commodities are produced using power driven machines.

Besides, production processes have been changed on account of unprecedented development in science and technology. Machinery, technology, fuel or power, raw material, production technique, quality control, packing etc. are the technical aspects of production.

(a) **Machinery**—Different types of machinery are used in the industrial enterprises for the production of commodities. Normally, two types of machinery are used, namely, General Machinery and Special Purpose Machinery. General work of production is done with the help of general machinery. In other words, the production process which is necessary for the production of almost all commodities is performed by these general machinery. Example of general machinery is lathe machine. On the other hand, special operation is performed with the help of special purpose machinery, namely, drilling machine, boring machine, grinding machine etc. Besides, certain ancillary appliances are used in production. These appliances are used for helping the main production activity. These are small tools, namely, hammer, chisel, screwdriver, generator, small carts or cars for transporting materials from one place to another etc. Workers perform ancillary production functions with the help of these ancillary appliances.

The advantages of production by machinery are—(1) large scale production becomes practicable ; (2) large number of units of the same size, same shape and of equal weight can be produced ; (3) production can be performed quickly ; (4) Workers do not get tired easily as they are relieved of the greater burden of work ; (5) large production volume can be achieved with the help of a few workers.

(b) **Technology**—Production is done not with the help of machinery alone. Different commodities are produced using the different production techniques. Advancement of science and technology has now been made tremendously. Improved technology has facilitated finding out of newer and newer production processes and techniques. In the steel industry coal, iron ore, manganese, dolomite, limestone etc. are mixed together by a particular technology to produce finished steel. Likewise, in the petroleum refining industry a definite technology is utilised for the production of several bye-products like petroleum, lubricating oil, gasoline, kerosine, diesel etc. while refining mineral oil.

(c) **Power or fuel**—For generating heat and running machinery power or fuel is necessary. Generally two kinds of power are used, namely, animate and inanimate powers. Muscular power derived from men and animals is called animate power or energy. Many machines are run by the muscle power of men and animals. On the other hand, energy which is derived from coal, petroleum, electricity, atomic power,

solar power etc. is known as inanimate energy or power. The heat which is required for smelting iron and other metals is generated by coal or electric power. And energy that is necessary for running machinery is generated by electric or petroleum or solar or atomic power.

(d) **Raw materials**—Production of commodity signifies conversion of raw-material into finished product. In the manufacturing industry one finished product is obtained by using several raw-materials, namely, synthetical industry or various finished products are produced by utilising a single type of raw-material, for example, analytical industry. Three kinds of raw-materials are used in the industry. These are vegetable, metallic and industrial raw-materials. Raw jute, raw cotton, sugarcane etc. are examples of vegetable raw-material. From these raw-materials jute fabrics, cloths and garments and sugar are produced. Copper, lead, zinc, iron ore, bauxite etc. are metallic raw-materials. From these raw-materials various metals are produced and these metals are used again for further production. Industrial raw-materials are produced in industries. Steel, lead, zinc, alluminium etc. are examples of industrial raw-materials which are used in other industries, namely, machine building, automobile, locomotive and other engineering industries.

Rawmaterials are always kept in stock for maintaining flow of production. Stocks of various materials are kept in stores department. These materials are sent to the production department in various ways. Coal and bulky materials are sent by conveyor belt, petroleum and petroleum products are supplied through under ground pipelines etc.

(e) **Production Process**—various production processes have been evolved for the production of different types of commodities. Of course, what production technique is to be applied is dependent on nature of production and product. Any way, the production process that facilitates maximum production at the minimum cost is desirable. Normally, there are three types of production, namely, **Job Production, Lot Production** and **Mass Production.** Production is undertaken according to the order of the customer in the case of **Job Production.** In this case production is also restricted to one commodity or two. Moreover, product of such a design, shape, size and weight is produced as the customer places order. Secondly, **Lot Production** signifies production of a few identical commodities. It is an extended form of job production. But it is undertaken either on the order of a customer or for supply of the commodities to the dealers to be sold as readymade products. If it is on the basis of customer's order, commodities are

produced according to the sample given by the customer. Finally, when a large number of commodities are produced considering the demand in the market, it is known as **Mass Production.** Large scale production is effected with the help of automatic machines. And the machines are arranged one after another in such a way that if the raw-material is placed on one part of the machine series, finished product is turned out in another. In the big factory a conveyor belt is provided. Every worker places the thing on the belt after completing his part of the job. When the thing reaches the second worker by means of the belt, he does the same thing. In this way, a commodity is produced by many persons within a very short time. This type of mass production is known as **Assembly Line Production.** This method is followed for the production of motor car, locomotive, Bata shoes etc. Job production is necessary for aeroplane and lot production is undertaken in the case of readymade garments.

(f) **Quality Standard**—Another important technical aspect is to produce standard quality product. Standard quality product means such a product that can fulfil the purpose for which it is produced. When a car is produced with the purpose that it is usable easily and comfortably for one complete year without any repair, then if it runs for one year without any repair, it is regarded as the standard quality product. In this way, watch, clock, camera, garment, machinery, raw-material etc. are regarded as standard quality when they satisfy the purposes for which they have been acquired by the customers. If a commodity is produced after examining carefully its shape, size, weight, durability and endurability, it is no doubt that the product will be of standard quality.

Quality of the product is very important for business success is dependent on it. Consumers like to buy quality products at reasonable prices. Therefore, if a businessman supplies quality product at reasonable prices, it is no doubt, his business success will be assured. It creates customers and extends the market for the product. And when the market is expanded, business expansion becomes indispensable. So every enterprise should pay greater attention to the quality of the product.

It is easy to produce standard quality product in the case of job production. For the commodities can be produced to suit the purposes of the customers. Since the lot production is also undertaken on the basis of customer's orders, standard quality product can also be produced in this case. It is not practicable always to produce the standard quality in the case of mass production. But it can be main-

tained as the mass production is effected with the help of machinery. As the machine can maintain precision, so a large number of commodities of the same quality can be produced. Even then mass production requires inspection so that each unit can be of the same standard. For this purpose, better quality rawmaterials and better machinery must also be used. Besides, labour efficiency must also be of improved standard. To sum up, standard quality product can be produced using better rawmaterials, better machinery and labour efficiency of the improved standard.

(g) **Packing and Packaging**—Packing means wrapping and filling of products in bags, bales, crates, cans, bottles and in boxes. Goods are to be packed carefully for protecting them from spoilage, pilferage, moisture, heat etc. Packing is necessary not only for keeping intact the freshness and quality of the goods but also for transporting them to the distant markets. Improved varieties of boxes, bottles, bags and containers have been found out at present for the protection of goods from moisture and heat. Normally liquid substances are kept in bottles, hard and solid things are packed in boxes and bags, raw jute and cotton are packed as bales, garments are packed in wooden boxes, crockery and glass-ware are kept in wooden boxes full of straw and tea and coffee are packed in pinewood boxes known as chests etc.

Packing and Packaging are not the same thing. Packing is done for the purposes, stated above. Packaging means putting the goods in packets, boxes, bottles and cans for the purpose of selling them to the ultimate consumers. Packaging protects the goods from spoilage, pilferage and loss of quality and at the same time creates the demand for the product. Package performs the following important functions—

(1) It attracts the customers for they like to buy goods which are sold in well designed and usable packages.

(2) It protects the goods from loss, exposure etc.

(3) It keeps intact the freshness and quality of the goods.

(4) It assures the customers about the correctness of the weight for the correct weight and the ingredients of the goods are printed in the package.

(5) It facilitates the handling and helps the use of the product.

(6) It facilitates the display of the products in shop window.

(7) Storing of the goods and placement of the products in racks are facilitated by packaging.

(8) It has use-value for the customers can use the packages or sell them after the product has been consumed.

2. Human Aspect

Working personnel are necessary in the industrial enterprise for production. Human aspect refers to the workers of the enterprise. Two classes of workers are required in the enterprise, namely, skilled and unskilled. Moreover, managerial personnel are needed for getting the work done by the workers. Different managers are required for different departments, for example—purchase manager for purchase department, sales manager for sales department, production manager for production department etc. Workers, managers and machinery—all these three make the production feasible. Besides, managers must also establish good and cordial relation with the workers. They should foster human relations in the enterprise keeping in mind that the workers are the partner of the enterprise. Their grievances should be met and in different areas of business activities their suggestions and advice should also be accepted.

Human aspect also includes establishment of good relations with the public and consumers. Managers or owners of the enterprise should behave with the consumers politely. Their grievances are to be met and their needs and aspirations are to be satisfied by supplying them better quality products.

Technical efficiency is necessary for maximum and proper use of materials factors like machinery, rawmaterials, assets etc. But human factor, that is, workers are to be handled carefully. Different workers have different mentality. Therefore, their intelligence and aptitude are to be tested minutely before placing them to different jobs. Moreover, they have to be paid adequate remuneration to utilise their initiative and efficiency to the maximum extent. In this way, if maximum satisfaction is given to them through paying them adequate remuneration, creating better working conditions and providing security, their workability can be utilised to the fullest extent.

3. Co-ordination with Purchase and Sale

Production is not the only function of an industrial enterprise. Various things are to be purchased and manufactured commodities are to be sold in the market. For the purpose of production many things like rawmaterial, machinery, other assets etc. are required to be purchased carefully at the right time and at right quantity. Again, arrangement has to be made for selling of manufactured goods in the market. Purchase, sale and production are to be co-ordinated properly to achieve enterprise objective. For effective co-ordination of purchase,

sale and production, a sound organisation structure is to be built up in the enterprise.

Selection of Factory Site

Success of a business is largely dependent on the location of the enterprise. If the enterprise is located at a suitable place, its cost of production is reduced and hence its profitability increases. If a plant is situated at a place which is far away from raw-material producing centres or from market, the operating cost will, naturally, be very high on account of increased transport cost that is to be incurred for carrying raw-materials or for delivering finished products to the markets. Favourable location is not only important in respect of a new enterprise, but it is equally necessary in the case of an old or existing plant. Sometimes, the shifting of the plant from one region to another becomes necessary. This is owing to the fact that a particular location favourable to a particular industry may become unfavourable on account of improvement and consequent changes in the technique of production, shifting centres of population, seasonal and cyclical changes in the conditions of transport and communication, finance availability and also exhaustion of resources etc.

Selection of a proper location is dependent on certain factors, namely, nearness to raw-materials, market, power producing centres, historical factor, climate, availability of finance etc. Relative importance of these different factors is again dependent on the nature of the industry. Raw-material and power are very important in the case of iron and steel industry and sugar industry, whereas market is a very important factor in the case of cotton textile industry.

Some of the factors are stated as follows—

(1) **Raw-materials**.—Plants are to be located at a place where raw-materials are available. The object behind the plant location near the raw-material producing centre is to reduce the operating cost. If the plant is located far away from the place where the raw-materials are produced, high transport cost will increase the cost of production. Availability of raw-materials is given more importance in cases of certain industries, namely, iron & steel industry, sugar industry etc. Iron & steel industry uses raw-materials which are bulky and heavy by nature. Location of the steel plant near the iron ore producing regions, therefore, reduces the cost of produuction on account of low transport cost. Sometimes, quality of raw-materials may change on account of their transportation to distant places. Sugar industry is an important example. In India sugar-cane is produced in U.P. and Bihar, Now,

suppose, if the sugar mills are situated at Kerala, the raw-material that is, sugarcane, will be dried up while they are transported from U.P. and Bihar to Kerala. Naturally, therefore, sugar mills are located near the sugar-cane producing regions.

(2) **Market**—This factor is to be taken into consideration for plant location as the products are to be brought to the market for their sale at profit. If the finished products are bulky, heavy or perishable, the plant is to be located near the market, as in that case low transport cost will reduce the production cost. Moreover, if the plant is located near the market, manufacturer can know the trend of the market. This is, particularly, important in the case of consumers' goods industry. Production of consumers' goods requires constant adjustment with market conditions on account of frequent changes in the tastes and fashions. Plants producing commodities for the local market are usually located near the market. On the other hand, firms supplying commodities to the national or international market are likely to be concentrated near the source of raw-material. Nearness to market is also necessary in the case of firms rendering services, particularly, repairs and replacements as in that case firms can render rapid services to their customers.

(3) **Power**—Power is essentially an important factor which influences operating cost and hence plant location. Industries utilising coal as power are generally located near the coal producing centres or near the port on account of low transport cost. Coal, still at present, influences the location of steel plant which utilises it as power. But with the generation and utilisation of hydro-electricity, power ceases to become an important factor in influencing plant location, as the electric power can be carried to a long distance. Electric power, on the other hand, can help in the dispersal of the industries. Industries which can utilise either coal or oil or electricity as power usually selects the least cost power. Naturally, the plants are then located in accordance with the source of power which they have selected for use.

(4) **Labour**—Labour is another important locational factor as it influences cost of production. Labour cost is very high in certain industries and these industries should, therefore, be located in those areas where cheap labour is available. Workers are of many types, namely, skilled, unskilled, male, female etc. Industries do not face any problem in respect of unskilled labour. They are available everywhere. Industries which require only skilled labour, usually, face varied problems in respect of cost and availability of such labour. If the site is selected in an area where social amenities are available and

if the industries pay high wages, the skilled workers may come and live at such a factory site. Although high wages increase labour cost, increased wages very often improve standard of living and hence, raise labour productivity. Therefore, production per worker is also increased. But at present, trade union activities stand in the way of improving labour productivity. In suburban areas or areas away from crowded cities where trade union influence is not very high, factory sites can suitably be selected. The industrialists will, no doubt, be required to offer higher wages to attract skilled workers. In crowded city areas, low wages can be paid on account of keen competition among labourers, but ultimately, enterprises are compelled to pay higher wages owing to greater trade union influence.

(5) **Transport and Communication**—Factory site is to be selected after carefully considering as to whether transport facilities are available. High transport cost may increase the production cost and hence, the products cannot be sold at a cheaper price in the competitive market. Therefore, the planners should select an area where the enterprise can get maximum transport service at the minimum cost. For transporting heavy and bulky products at a shorter time, railway transport is very suitable. Water transport is cheap and bulky and heavy things can also be carried by it to distant places. Industries which depend on imported raw-materials are usually located near the port. When commodities are to be sent quickly to far away places, air transport can be made use of. Air transport is very costly and it is suitable only for transporting perishable commodities and valuable things.

(6) **Climate**—While selecting factory area, climatic condition should also be taken into consideration. Invigorating climate may attract skilled workers to the factory site and improve labour productivity. Moreover, certain industries can be developed well under typical climatic conditions. For example, humid climate is very suitable for cotton textile industry. Unfavourable climate may hamper industrial production by affecting transport system. Excessive snowfall or rainfall usually stands in the way of easy transportation of commodities.

Besides above, certain other minor factors are also to be given importance. Credit and banking facilities, availability of water for industrial production, cost of land and building, tax rates, Governmental concessions, repair and marketing services are some of the important minor factors.

Questions

Essay Type

1. Classify the size of the business unit. How is the size of the business unit measured?

[Ans. Small, Medium and Large-scale Business]

2. Discuss the factors that determine the size of the business unit.

[Ans. Factors determining the size of a Firm]

3. Economies of Large-scale production are of two types—internal and external. Discuss.

[Ans. Merits of Large scale business and demerits of small-scale business]

4. Discuss the economics of large scale business.

[Ans. Merits of Large scale business and demerits of small scale business]

5. Discuss what do you know about the comparative merits and demerits of large, medium and small scale business.

[Ans. Merits of Large scale and Demerits of small-scale business —Demerits of Large scale and merits of small-scale Business]

6. Though there are various advantages in large scale business, why are small enterprises found in the business world?

[Ans. Merits of small-scale Business and Demerits of large scale Business]

7. What is Mixed Economy? What do you mean by Private Sector and Public Sector?

[Ans. What is Mixed Economy—Private Sector—Public Sector]

8. What are the important features of mixed economy followed in India.

[Ans. Features of Mixed Economy followed in India]

9. What do you mean by Joint Sector? Discuss the necessity of the joint sector in the industrial development of India.

[Ans. Joint Sector]

10. Write an account of the Indian business with foreign collaoration. What are the merits and demerits of foreign collaboration?

[Ans. Foreign collaboration]

11. Foreign collaboration is found both in the public and private sectors. Discuss and point out the justification of foreign collaboration in Indian industries in the present economic condition.

[Ans. Foreign collaboration]

12. What factors are to be taken into consideration for selecting the site of a factory.

[Ans. Selection of Factory Site]

13. Briefly indicate the principal aspects of a manufacturing enterprise.

[Ans. Different Aspects of a Manufacturing industry]

Short Answer Type

1. (a) Explain the meanings of small, medium and large industry based on official classification.

(b) Explain the terms—Mixed Economy, Unorganized Sector, Foreign Collaboration. [H.S. 1978]

[Ans. Small, Medium and Large scale Business—What is Mixed Economy—Unorganized Sector—Foreign Collaboration]

2. Elucidate the importance of quality standard, packaging and packing in manufactured goods. [H.S. 1979]

[Ans. Different Aspects of a Manufacturing Industry—only Quality Standard—Packaging and Packing]

3. Explain the statement—"A country may require big business but not big businessman." [Specimen Question 1980]

[Ans. Social Significance of Large-scale Business—Advantages—Disadvantages]

4. Discuss the social and economic significance of different sizes of business units specially in regard to enrolment and national product. [Specimen question 1980]

[Ans. Economic and Social Significance of Different Sizes]

5. Explain the following terms in relation to their uses in our country : Organized Sector, Unorganized Sector, Public Sector, Private Sector. [Specimen Question]

[Ans. Organized Sector—Unorganized Sector—Public Sector—Private Sector]

6. Explain the social significance of large scale business.

[Ans. Social Significance of Large Business]

7. Explain the social significance of small business in regard to enrolment and production.

[Ans. Social Significance of Cottage and Small scale Industries]

8. What is meant by human aspect in manufacturing industry? Explain the importance of human relations.

[Ans. Different Aspects of a Manufacturing industry—Human Aspect only]

9. What different types of machinery and raw-materials are used in manufacturing industry?

[Ans. Different Aspects of a Manufacturing industry—Machinery—Raw-material]

10. What different types of production processes are now followed in industrial enterprises?

[Ans. Different Aspects of a Manufacturing Industry—Production Process]

11. Write Short Notes on—(a) Organized and Unorganized sectors of Business, (b) Management Consultancy, (c) Different Aspects of Manufacturing Industry, (d) Mixed Economy, (e) Joint Sector, (f) Foreign Collaboration, (g) Public Sector, (h) Private Sector.

12. Explain the following terms : Public Sector, Joint Sector, Consultancy Services. [H. S. 1979]

[Ans. Public Sector—Joint Sector—Consultancy Services]

Objective Type

1. State True or False

(a) In a large enterprise cost per pnit is reduced.

(b) Every large enterprise enjoys external economies

(c) Production economies are known as internal economies of a large business enterprise.

(d) Only the Public sector is found in a mixed economy.

(e) Mixed economy is to some extent a regulated economy.

(f) In the joint sector both types of ownership establish business enterprises.

(g) Partnership is included in the joint sector.

(h) Co-operative enterprise is included in the unorganized sector.

(i) Location influences profitability of a business enterprise.

(j) Steel Industry is the raw-material localised industry.

2. State the sizes the following enterprises should get—

(a) Steel Plant (b) Sugar-mill (c) Goldsmith's shop (d) Tailor's shop (e) Cotton mill (g) Stationery shop (h) Readymade Garments factory (i) Handloom production (j) Automobile factory

3. Give the examples of internal economies of large scale production.

4. Give examples of India's organized sector.

5. Which industries can be established away from the raw-material producing centres? Give three examples of them.

CHAPTER VI

HOME TRADE

Channels of Distribution

After production, the important task of the manufacturer is to distribute goods to the users. A producer may manufacture two types of goods, namely, production goods and consumption goods. Production goods are supplied to industrial users and the consumption goods are sold to consumers. Producers and consumers are not now close to each other. They are widely separated. But as a result of the development of specialisation and international trade, a producer can sell his goods to purchasers living at distant countries.

Distribution of goods involves trade which removes hindrances in respect of person. Since places of production and consumption are widely separated, it is the duty of a trader to collect goods from the place of production and supply the same to the place of consumption. This feature of modern trading has created various complications. Various methods of distribution have, therefore, been found out to remove these complications. A manufacturer cannot utilise too many channels for distribution of his products. It is his important task to select certain particular channels for the purpose of effecting sales of larger quantities at the least cost. Selection of trade channels is, to a great extent, dependent on the nature of the product.

Of the numerous channels the following are the important few—

(1) **Direct Sale to the Consumer**—This is the oldest method of distribution. Before the industrial revolution when agriculture was primary occupation of the people, producers and consumers were very close to each other. Hence, trading was effected mainly through direct selling to consumers. Even at present when competition compels a businessman to use various other channels, direct selling is resorted to particularly in the case of agricultural product. When the nature of the commodity is such that it can be sold to consumers of a particular class instead of several classes direct selling is preferred.

(2) **Sale through Own Shops**—This is also a method of direct selling. A small manufacturer usually sells products through his own shop. Basic necessities of life which are transacted daily are very

often sold by traders through their own shops. Sometimes, big producers sell their manufactured goods through their own retail shops.

(3) **Sale to wholesalers**—Sometimes, manufacturers who do not like to take risks of distribution, sell their goods to wholesalers. Wholesalers then distribute the same among numerous retailers who in turn sell products to the consumers. This is now a widely practised method of distribution.

(4) **Direct Sale to Retailers**—Small producers and manufacturers producing goods on medium scale are unable to bear risks of distribution. They are also not big enough to organise distribution of their own products. They sell very often directly to the big retailers who in turn sell goods to small retailers. Again, when producers are to sell at distant markets or supply their products to different consuming centres, they sell directly to the retailers.

(5) **Sale through Special Agents**—Sales are also effected by the producers by appointing agents. Sole selling agents are engaged and they are granted exclusive authority to sell on behalf of the producer in their respective areas. Commission agents sell goods on commission basis and they sell the merchandise mainly to wholesalers and big retailers.

Wholesale Trade and its Functions

Wholesale trade is the process of distributing goods from the manufacturers to the retailers. The main wholesale activity is to buy raw-materials in bulk from the producers and growers and sell them to the manufacturers and industrial enterprises or to purchase goods from the manufacturers and industrial enterprises and sell them to the retailers. The wholesaler, therefore, stands as a link or middleman between the producer or grower and the retailer.

The trade which is concerned with purchasing goods in bulk from the producers or growers and selling them to manufacturers and retailers in small quantities is known as wholesale Trade.

The wholesaler procures goods from various sources. He may procure raw-materials from the primary producers or manufactured commodities from the industry. In some cases he buys raw-materials in small quantities from small farmers or growers and sells them to the manufacturers in large quantities. Very often he purchases goods from village artisans or small manufacturers in small quantities and

sells them to the retailers. At this small farmers and village artisans are very much benefited. These producers are not in a position to sell directly to retailers, as in that case, they may not enjoy ready market. Moreover, they cannot build up such an organisation that is necessary to sell directly to the consumers. Again, they will not be able to sell wholly on cash basis and as a result, a greater part of the meagre capital invested by them is likely to be blocked. The wholesale business not only provides the small producers or growers with ready market but also with financial assistance which wholesalers frequently advance to enable them to manufacture commodities or grow crops.

Therefore, the main source of getting supplies is the manufacturer or primary producers. They sell their entire stock to the wholesalers for the purpose of getting ready market. Sometimes, the entire stock is sold long before the production is completed. So also the small cultivators sell their crops to wholesalers when simply seeds are sown.

Other sources are Indent Houses and importers chiefly for procuring of foreign goods. The main function of indent houses is to import goods from foreign countries. Wholesalers are immensely benefited as they can avoid the trouble of importing goods from abroad for they can procure the imported foreign goods from the indent houses. Sometimes, the indent firm acts as a wholesaler. It secures orders from foreign importers. Then it procures goods from the home manufacturers and exports them in bulk to the foreign countries. On the other hand, it collects orders from home traders who like to import goods and places them to the foreign exporters in large quantities. Then it distributes the goods to the traders according to their orders.

Classification of wholesale Traders

The wholesale business or wholesalers are classified according to the nature of business as follows—

(1) **Specialised wholesaler :** The wholesale trader who buys and sells a single commodity is known as special wholesaler. For example—jute wholesaler, cotton wholesaler etc. Jute wholesaler deals only in raw jute or jute goods. Similarly, cotton trader does business in raw-cotton or cotton fabrics.

(2) **General Wholesaler :** Wholesaler who deals in more than one commodity is called general wholesaler. Examples are spice wholesaler, fruit wholesaler etc. Spice wholesaler sells various types of spices. Fruit wholesaler deals in varied types of fruits. They buy and sell various types of goods.

(3) **National Wholesaler :** National wholesaler is the only wholesale trader in a country who deals in a particular commodity. Normally, he imports and exports merchandise. The national wholesaler of a country generally imports machinery or raw-materials in bulk and sells them among home traders or exports commodities in large quantities after securing them from the home manufacturers.

(4) **Regional Wholesaler** : Sometimes, different wholesale traders sell goods in different areas of a country. When a wholesaler deals in a particular commodity in a particular region, he is called regional wholesaler. Tata company produces steel in Jamshedpur. If it sells steel in West Bengal only, it is known as regional wholesaler.

(5) **Local Wholesaler :** When a wholesaler restricts his business to a particular city or a district, he is called local wholesaler. For example, when a wholesale trader sells Tata steel in the city of Calcutta only or in Twenty Four Paraganas district, he becomes local wholesaler A local wholesale trader may deal in one or more than one commodity.

(6) **Cash Wholesaler :** A Wholesaler is called cash wholesaler when he sells goods only on cash basis. He may be a general or specialised wholesale trader. Wholesalers in Burrabazar, Canning street etc. are normally cash wholesalers.

(7) **Small and Big Wholesalers :** In the business world both small and big wholesalers are found. General and national wholesale businesses are organized on a large scale. So they are called big wholesale traders. On the other hand, regional and local wholesale trades are organized on a small scale and hence they are small wholesalers. As they have to restrict their businesses to a local or regional area, they cannot be large wholesalers. Of course, they are not as small as the retailer. They are smaller than big wholesaler. A sole selling agent is to sell goods in a particular area, and so he builds up a smaller wholesale business.

(8) **Manufacturer Wholesaler :** Sometimes manufacturer sells goods as a wholesaler instead of selling goods to wholesalers. Small manufacturers, very often, sell goods through their own shops. Big producers too sell their products through multiple shop system. When a manufacturer acts as a wholesaler, he is called manufacturer wholesaler.

(9) **Retail Wholesaler** : We have noted earlier small manufacturers sell their products through their own shops. Big producers sell their goods through opening up multiple shops. When a wholesaler sells goods by establishing retail shops instead of selling to retailers, he is known as retail wholesaler.

Organization of Wholesale Trade

Normally wholesale trade is organized on a large scale, as the wholesaler sells in large quantity. National and general wholesale trades are required to be organized on a large scale. But the local and regional wholesalers may not be as big as the National and general wholesalers. Size of the wholesale business is dependent on nature of the product, extension of the market, availability of capital etc. Again, organization of the business depends on its size. The organization which is necessary in a big business may not be built up in a small enterprise.

A greater amount of capital is required in wholesale trade as the goods are bought and sold in large quantity. Sometimes, a wholesaler needs to keep a large stock of goods. As the sizeable part of capital is blocked for keeping stock of goods, a large amount of capital is needed. Very often wholesaler advances money to the small farmers and artisans. Moreover, he sells goods to the retailers on long term credit basis. All these require the investment of large amount of capital in the business. Of course, the requirement of capital is dependent on the nature of the product. A spice dealer need not employ so much capital as it is required in the case of wholesale trade in jute product.

Since it requires a large amount of capital, it is very often **established as a joint stock company.** For a company can raise large amount of capital by issuing shares and debentures to the public. Of course, the wholesale business is also established as a sole-proprietorship or partnership organization.

A wholesaler **needs a warehouse** to keep the stock of materials. In fact, the wholesaler transacts business in the godown. He need not open a separate shop for dealing in goods. Of course, a few regional offices are established in the city for the convenience of selling operation. Very often showrooms or exhibition rooms are required to be maintained for the purpose of advertisement. Sometimes, office-room is attached to a place where godown is established. Commodities are always bought and sold in large quantity. Hence, a greater number of transactions are not effected during a period. So the office-room need not be a big room. Since the transactions take place in the warehouse, it should be established in a convenient place, particularly, where transport and communication is available. Otherwise, there will be difficulty in receiving goods in the godown and delivering goods to the retailers. Generally, it is desirable that the godown be established near a railway station or near a port or in the centre of a city.

General wholesaler requires **different departments** for different commodities he deals in. Each department is entrusted with the buying and selling of a particular commodity. Besides, various other departments are provided. These are—purchase department, sales department, accounts department, general office for correspondence and filing, transport or traffic department, packing and despatch department etc. Different managers are appointed for looking after affairs of different departments. For example, purchase manager for purchase department, sales manager for sales department, accountant for accounts department, secretary for office etc. Moreover, a chief executive or managing director is appointed to control and co-ordinate the activities of departmental managers.

A well decorated business building or a shop is not needed as the wholesaler sells goods to the retailers only.

A wholesaler is also to enquire about the **sources of supply.** Generally, wholesaler procures goods from the manufacturers. Therefore, the wholesaler must enquire where the products which he deals in are manufactured. He must also establish connections with the different manfacturers. Sometimes, the wholesaler imports goods from the foreign countries and sells them to the retailers. In that case he must find out the foreign countries where the commodities are manufactured or the foreign market where they are dealt in. In the case of raw-material or food it has to be procured from the farmers. Minerals are to be collected from the different mining centres. And the industrial products are to be bought from the industrial enterprises.

Usefulness of wholesale Trade

In the present economic condition wholesale trade has become indispensable. Since the wholesale business is concerned with the procuring of materials from the manufacturers and sells them to the retailers, it provides certain advantages to the manufacturers, retailers consumers and also to the society in general.

Manufacturers are benefited in the following ways—

(1) It renders valuable services to manufacturers by placing large orders with them. Large sale can only enable the producers to produce goods on a large scale which again brings forth economies in production and reduces cost.

(2) Since producers can avoid the risks and expenses of distribution, they can pay more attention to the production of quality goods. Hence, efficiency in production is improved and production cost is reduced further.

(3) Producers need not make any arrangement for the storage of goods as the wholesalers always purchase in bulk and hence arrange for warehousing of their products.

(4) As the producers can sell the entire stock, a large amount of working capital is not needed to be invested.

(5) Producers also get necessary information from the wholesalers in respect of impending changes in the demand of their products Accordingly, they can adjust the quantity to be produced and improve the quality.

(6) The wholesale business gives scope to manufacturers to become specialised in the production of certain specified products. Since the wholesalers place large orders for purchasing certain specific goods.

(7) As the wholesalers buy the commodities from the manufacturers well in advance, that is even before the production is completed, the producers can maintain the flow of production.

Advantages to the Retailers are as follows—

(1) Wholesalers also render valuable services to retailers by supplying them goods whenever the retailers need them. Therefore, the retailers need not maintain a large stock and a large amount of capital need not be invested.

(2) As the retailers can get ready supply of goods from wholesalers, they need not maintain a warehouse or a large stock and hence need not block a greater amount of capital.

(3) The retailer can also procure goods from the wholesaler on credit. Hence, the retailer need not provide a large amount of ready cash.

(4) The wholesalers give necessary information to the retailers in respect of new types of goods that are likely to be introduced in the market. Therefore, the retailers can get information beforehand about the impending changes in the type and quality of the goods. This facilitates them to create customers.

(5) It is not practicable for the retailers to advertise for the products they deal in. Wholesalers can spend large amount for the advertisement and can create demand for the products in the market. This helps the retailers to sell the goods in the market.

(6) It is also not possible for the retailers to spend large sum for market research for effecting increasing sales volume. The whole-

salers can undertake the market research and give the result of the research to the retailers.

(7) The wholesalers can help retailers in maintaining price level by expanding and contracting supplies of goods.

Consumers are benefited in the following ways—

(1) As the retailers can get the ready supply from the wholesalers, consumers can buy goods from them whenever they need them.

(2) The wholesalers help the manufacturers to produce commodities according to the tastes and fashions prevailing in the market. Therefore, the consumers can buy according to their demand.

(3) The wholesalers can stabilise the price level by supplying the commodities whenever the retailers demand them. At this the consumers are benefited.

(4) Wholesalers supply goods to the retailers of the different areas. Consumers can therefore, buy the required commodity at any area.

Disadvantages of wholesale Trade

The following are the disadvantages—

(1) Arguments are put forward in many quarters that wholesalers should be eliminated, as they simply act as middlemen and increase prices of the products. Had there been no wholesalers, ultimate consumers could have acquired goods at cheaper prices.

(2) The wholesaler does not advertise for the products of the manufacturer and at the same time discriminates between different retailers. In other words, they do not sell particular commodity at the same price to the different retailers. They also allow varying discount rates to the different retailers.

(3) In the case of perishable commodities wholesale business is not necessary. Producers are inclined to sell their products directly to the consumers.

(4) Sometimes, wholesalers exploit small producers or growers by forcing them to sell their products at very low prices long before the production or cultivation is started.

(5) At present manufacturers undertake to sell products directly to the consumers by opening up multiple shops, mailorder business, show roorms etc. for having greater acquaintance with customers.

Retail Trade

Economic and Social importance and functions

Retail trade is a process of distributing goods from the manufacturer or wholesaler to the ultimate consumers. The main function of a retailer is to procure merchandise in large quantities either from the manufacturer or wholesaler and sell the same to the consumers in small quantities or packets. The retailer has to observe carefully tastes and fashions prevailing in the market and to gauge the demand for the varied products. Hence, the producer can adjust his output to such a quantity and of such quality standard as is necessary after getting the information through the retailers regarding prevailing fashion and demand for the product.

Requirement of a single customer is very small. A manufacturer or a wholesaler is not inclined to satisfy such small requirement. A retailer can only satisfy as he usually sells in small quantities to the consumers. A retailer is, therefore, a middleman. He establishes a link between the producer or the wholesaler and consumer.

Retail shops are found in different areas. They are spread over different localities in a city, over different villages and in the different regions of a village. These retail shop-owners keep stocks of varied merchandise, by collecting them from the manufacturers or wholesalers for the purpose of selling them to the consumers. **This enables the consumers to buy essential commodities near their dwelling houses** without any difficulty. As the retailers keep stocks of various commodities, the consumers can buy various things from the retail shops. Sometimes, the retailer stocks various new commodities to attract customers. Besides, retailers perform certain important ancillary functions for selling the products. These are purchasing, transporting, warehousing, grading, securing capital, risk bearing etc.

The retail business plays an important role in **providing employment opportunities.** Many persons can employ themselves by establishing retail shops. Looking to the large number of retail shops that are found in the different cities, metropolises and villages it can be said that many people have abled to arrange for self-employment. Moreover, many persons are appointed as employees in the retail shops. Therefore, a large number of people can secure employment in all these retail shops. Hence, it can not be denied that the retail business has an important role in fostering domestic employment.

Producers cannot take the risk of the distribution of goods directly to the consumers. That is why, they sell them in large quantity to the wholesalers. It is also very difficult for the wholesalers to have direct connection with the consumers. Manufacturers and wholesalers are not able to sell directly to the consumers by establishing a large number of retail shops. Therefore, **the retailers help the manufacturers and wholesalers immensely** by selling their products to the consumers.

In short, **the functions of a retailer are**—

(1) He buys commodities from different manufacturers or wholesalers and keeps a ready stock of them.

(2) He decorates his shop by various commodities.

(3) He puts forth his best effort to satisfy the tastes and fashions of the consumers.

(4) A retailer meets the demand for essential commodities that are needed daily.

(5) He collects various commodities to satisfy individual demand.

(6) He sells in small quantity to the consumers.

(7) He tries to meet the demand for specific goods of a specific customer or a specific class of consumers.

(8) Sometimes, he sells on credit to the consumers.

(9) He performs certain ancillary or auxiliary functions in respect of sale. These are—storing, transporing, grading etc.

Organization of Retail Trade

The business of the retail trade is to collect various goods from the producers or wholesalers and sell them directly to the consumers. It is **normally orgainzed on a small scale** though large retail business is also found. The organization of a small retail trade is dependent on the ability and proficiency of the retailer. Owners of small retail shops like grocery, stationery, cloth, shoe and variety stores etc. build up the organization depending on the size of the business and their abilities. **Organization of large scale retail trade,** namely, departmental stores or multiple shop or chain stores is different. Departmental stores sells various things under one roof. So it provides various departments for different commodities it deals in. Besides, it has certain general departments like office, accounts department, purchase department etc. Multiple shop sells commodities by establlishing retail shops in different parts of the city. Different branch managers are appointed to look after retail shops of different localities. A cashier and a few salesmen are also engaged for each shop. Small scale retail busi-

Retail Trade

Economic and Social importance and functions

Retail trade is a process of distributing goods from the manufacturer or wholesaler to the ultimate consumers. The main function of a retailer is to procure merchandise in large quantities either from the manufacturer or wholesaler and sell the same to the consumers in small quantities or packets. The retailer has to observe carefully tastes and fashions prevailing in the market and to gauge the demand for the varied products. Hence, the producer can adjust his output to such a quantity and of such quality standard as is necessary after getting the information through the retailers regarding prevailing fashion and demand for the product.

Requirement of a single customer is very small. A manufacturer or a wholesaler is not inclined to satisfy such small requirement. A retailer can only satisfy as he usually sells in small quantities to the consumers. A retailer is, therefore, a middleman. He establishes a link between the producer or the wholesaler and consumer.

Retail shops are found in different areas. They are spread over different localities in a city, over different villages and in the different regions of a village. These retail shop-owners keep stocks of varied merchandise, by collecting them from the manufacturers or wholesalers for the purpose of selling them to the consumers. **This enables the consumers to buy essential commodities near their dwelling houses** without any difficulty. As the retailers keep stocks of various commodities, the consumers can buy various things from the retail shops. Sometimes, the retailer stocks various new commodities to attract customers. Besides, retailers perform certain important ancillary functions for selling the products. These are purchasing, transporting, warehousing, grading, securing capital, risk bearing etc.

The retail business plays an important role in **providing employment opportunities.** Many persons can employ themselves by establishing retail shops. Looking to the large number of retail shops that are found in the different cities, metropolises and villages it can be said that many people have abled to arrange for self-employment. Moreover, many persons are appointed as employees in the retail shops. Therefore, a large number of people can secure employment in all these retail shops. Hence, it can not be denied that the retail business has an important role in fostering domestic employment.

Producers cannot take the risk of the distribution of goods directly to the consumers. That is why, they sell them in large quantity to the wholesalers. It is also very difficult for the wholesalers to have direct connection with the consumers. Manufacturers and wholesalers are not able to sell directly to the consumers by establishing a large number of retail shops. Therefore, **the retailers help the manufacturers and wholesalers immensely** by selling their products to the consumers.

In short, **the functions of a retailer are—**

(1) He buys commodities from different manufacturers or wholesalers and keeps a ready stock of them.

(2) He decorates his shop by various commodities.

(3) He puts forth his best effort to satisfy the tastes and fashions of the consumers.

(4) A retailer meets the demand for essential commodities that are needed daily.

(5) He collects various commodities to satisfy individual demand.

(6) He sells in small quantity to the consumers.

(7) He tries to meet the demand for specific goods of a specific customer or a specific class of consumers.

(8) Sometimes, he sells on credit to the consumers.

(9) He performs certain ancillary or auxiliary functions in respect of sale. These are—storing, transporing, grading etc.

Organization of Retail Trade

The business of the retail trade is to collect various goods from the producers or wholesalers and sell them directly to the consumers. It is **normally orgainzed on a small scale** though large retail business is also found. The organization of a small retail trade is dependent on the ability and proficiency of the retailer. Owners of small retail shops like grocery, stationery, cloth, shoe and variety stores etc. build up the organization depending on the size of the business and their abilities. **Organization of large scale retail trade,** namely, departmental stores or multiple shop or chain stores is different. Departmental stores sells various things under one roof. So it provides various departments for different commodities it deals in. Besides, it has certain general departments like office, accounts department, purchase department etc. Multiple shop sells commodities by establlishing retail shops in different parts of the city. Different branch managers are appointed to look after retail shops of different localities. A cashier and a few salesmen are also engaged for each shop. Small scale retail busi-

ness is organized as a sole proprietorship concern or a partnership firm. But a large scale retail business is established as a joint stock company.

The success of a retail business is dependent on how many customers are attracted to it and what quantity is being sold at a profit. If the goods are sold according to the prevailing tastes and fashions, it can attract a large number of customers and as a result, a large quantity can easily be sold. A retailer must have definite knowledge about different types of customers and he must also study tastes, habits, fashions of different classes of customers for the purpose of effective selling operations. He must also decorate and furnish his shop beautifully to attract customers to various commodities that he deals in. By means of effective salesmanship also he must attract people to various things and make them customers.

It is not simply by selling commodities according to prevailing tastes and fashions, the retailer will be in a position to bring in business success. He must acquire varied things carefully and judiciously from different sources. For this he must know the sources of supply of various commodities. Besides, he has to take firm decision in respect of the varieties of commodities that he is to purchase, their quality and quantity. When they are to be acquired, at what prices they are to be purchased etc. He must always acquaint himself with the present market condition. In other words, he must be an expert businessman. **Sources of supply to a retailer** are either different wholesalers or manufacturers Therefore, he must enquire where the varied commodities he deals in are manufactured or where the wholesale markets for these commodities are to be found. For example, in Calcutta wholesale markets for varied things are found in Burrabazar area. So, if the retail shop is established in Calcutta or its neighbourhood, the retailer must investigate where in Burrabazar area specific wholesale markets for specific commodities have been established.

Generally retail shops are **established in populous locality**, so that customers can buy their essential commodities quite easily. Small scale retail shops are set up in different mohullas or localities and by the side of a main thoroughfare. It can conveniently be established near the railway stations. In that case the commuters can buy their daily necessaries from these shops Anyway, it is to be established in an area where sales volume potentiality is very high. It is preferable, therefore, the retailer should investigate sales potentiality before setting **up his shop in any area.**

These shops **do not require big building.** But the shops are to be decorated and furnished nicely to attract customers. Large retail shops are set up in posh areas. Since these large shops sell varied things, from daily necessaries to valuables, they **require big building.** Very often under one roof many rooms are provided to accommodate and sell various things.

The amount of capital investment is dependent on the size of the business and the nature of the product. Retailer always sells on cash basis. He requires a smaller amount of working capital as the capital is turned over with much rapidity. Sometimes, the retailer can buy goods on credit from the wholesalers. If he sells always on cash basis, a small amount of working capital is needed. A retailer is also required to sell on credit. In that case a portion of the capital is blocked with the debtors and hence, a large amount of working capital is necessary. Besides working capital, fixed capital is also needed in the retail business though a comparatively lesser amount. Fixed and working capital are invested for acquiring premises, furniture, for keeping stocks of various things, for keeping cash in hand and at bank for ready purchases.

Different Types of Retail Trade

Retail trade is classified as **specialised Retailing and General Retailing.** When a retail shop deals in only one commodity, it is called specialised retailing. Examples are cloth store, shoe store, drug shop etc. Cloth store sells only cloth, drug shop sells only drugs and so they are specialised retail shops. On the otherhand, when a retail shop deals in various things, it is known as general retailing. Examples of general retailing are grocery, stationery shop, variety store, consumers' co-operative store, departmental stores, hardware shop etc. All these retail shops sell various commodities.

Still there are other types of retailing whose method of sale and payment of price are different These are Hire purchase, Instalment payment, Mail-order business etc.

Small scale Retailing

(1) Pedlar :

Pedlar is a retailer. He sells various things on cash basis. He has no shop of his own. He wanders from one place to another and sells and delivers goods to customers' houses Sometimes, he sits along the roadside and sells things by hawking. Normally pedlars or hawkers sell fruits vegetables, napkin, towel and various other things.

(2) Unit Retailer

A single retail shop for selling a specific thing or various commodities is known as Unit Retailer. It may be established as a soleproprietorship, partnership or a joint stock company. A smaller amount of capital is invested and normally members of the family are engaged for carrying on various activities of the retail shop. It may sell a specific thing, for example, gold smith's shop, cloth store, shoe store, etc. It may also sell varied things. Examples are stationery shop, variety store, shop for readymade garments etc.

Unit retail shops are found everywhere, in every city, every village, mohulla, gaunge etc. These shops are set up near the dwelling houses. So the consumers can easily buy their daily necessaries from these shops.

It is very easy to establish unit retail shop. It is not required to observe any legal formalities. A few employees are necessary and the proprietor can have direct relation with them. Capital is turned over with much rapidity as it sells always on cash basis. Hence, a smaller amount of capital may do large amount of business. It can establish close relation with customers. So it can sell things according to their tastes, fashions and habits. For it can observe their tastes, fashions, habits etc. The unit shop can also adjust with the changing conditions in the market. But it can not expand the business and become a large scale organisation on account of its managerial and financial limitations.

It helps the consumers on various ways. It acquires various things from various sources and brings them at the doorsteps of the consumers. So the consumers can buy their necessaries from these shops whenever they need them. Moreover, these retail shops are also found selling goods on credit.

(3) Consumers Co-operative Stores

For the purpose of getting goods and services at lower than market prices, the member-consumers may form this consumers co-operative store. Being hard pressed on account of soaring prices of goods supplied by the retailers and dissatisfied with bad services, consumers of a locality put forth their joint efforts and organise this type of retail store for getting supplies of articles needed in every day life.

This is co-operative association. Registration of this association is not compulsory. But if it is registered, it can enjoy certain advant-

ages. It is registered with the Registrar of co-operative societies. It has a share capital and is mainly contributed by the members by means of purchasings shares. Each member can contribute to the share-capital up to a certain limit. The liability of the members is limited.

A managing committee is formed to manage the affairs of the store. Each member has one vote irrespective of the number of shares held by him.

Goods are procured either directly from manufacturers or from wholesalers. But usually a wholesale organisation is established to get the supplies directly from different manufacturers and distribute them to consumers' stores of different localities.

Commodities are sold both to the members and non-members either for cash or on credit. Profit is shared by the members in accordance with shares held by them. Generally, restrictions are imposed on the quantum of profit to be distributed (usually not more than 10%) for building up reserves to meet future contingencies.

The advantages of consumers' stores need not be over-emphasised. Consumers can purchase their daily necessities of better quality at reasonable prices. Moreover, it may check monopoly, black marketing and profiteering.

But this type of consumers' stores seldom brings about business success. Lack of experience, lack of co-operative spirit and mangerial inefficiency stand in the way of its becoming a successful organisation.

Large Scale Retailing

Departmental Stores

Departmental stores may be defined as a big store chiefly engaged in the retail trade of various things under one roof. It procures goods from the manufacturers or wholesaleres in large quantities and sells them to the consumers in small packets. A bigger store keeps all sorts of articles from pin to motor car. Departmental stores are very popular in European and Amerian countries. Big stores having as many as three hundred departments are found in the UK., the U.S.A,. Japan. West Germany and France. In India big departmental stores are rarely found. At Calcutta Kamalaya Stores and Hall and Anderson used to sell wide variety of articles. At present, supermarkets have been established in Delhi and Samabayika at Calcutta for selling various commodities like a departmental store.

Features

Departmental store is a large scale retail shop. It purchases various products either directly from manufacturers or from wholesalers in large quantities and sells them in small packets through a number of departments. Its main function is **decentralised purchasing and centralised selling of manifold articles.** Each department deals in a particular product. It usually sells basic necessities of life, namely, readymade dresses, shoes, tapestry, bedcover, stationery products, cloths etc.

It is generally established as a limited company. General policies are formulated by the board of directors and the executive functions are vested with a managing director or a general manager. For each department, a departmental manager is engaged. He is responsible for efficient operation of his department. He has special skill for dealing in a particular article and exercises his best judgment for purchasing and selling of that article. In each department salesmen and salesgirls are appointed and are controlled by the departmental manager Sometimes, sectional managers are engaged to control the activities of departmental managers.

In a big store each department is provided with a cashier who is accountable to a General Cashier. In a smaller one a General Cash department is opened and all customers are to pay for their wares there.

Usually, when goods are sold, a salesman prepares cash memo in duplicate. One he keeps with him and the other he hands over to the customer who submits the same to the cashier for payment. The cashier receives the amount of the cash memo from the customer. He keeps the perforated part of the memo and gives the other part of the memo to the customer who produces it to the packing department situated at the doorstep to get the purchased articles.

Articles are sold both for cash and on credit. Goods are sold on credit only to the known customers. Arrangements are also made for **home delivery of the goods.**

Besides departments for dealing in various products, other general departments are also established, namely, Accounts Department, for keeping accounts of different departments in columnar form, Correspondence Department for dealing with and keeping records of correspondence and files etc, and a warehouse for preserving stocks of various commodities.

Locality and Premises

Departmental stores is usually located at the centre of a city or at the crossing of the big thoroughfares. So the customers of different regions of the city can come to the centre of the city and buy various things from the stores. It is not established in different regions or mohullas. It is not also set up in villages. The rich and the upper classes are the usual customers of this stores. So they find no difficulty in buying their necessaries from the stores which are established at the central position or at the busy crossing. The rural people have low standard of living and hence this store is not set up in the villages.

Departmental stores requires a big building as it sells various, things through a number of departments. Normally one or more than one department is placed in each spacious floor. Besides, certain ancillary departments are opened. These are restaurant, saloon, telephone booth etc. Each floor of the premises and the various departments located therein are decorated and furnished nicely for attracting customers while they move from one department to another.

Sources of Supply

We have noted that the departmental stores procures goods from the manufacturers directly or from different wholesalers in large quantities. Sometimes it imports various things from the foreign countries, that is, it buys varied goods from the foreign wholesalers. It also buys foreign goods from the importers of the home country.

Advantages

The following are the advantages of a departmental stores—

Advantages from customers' point of view—

(1) Customers from different corners of the city find no difficulty in shopping at the departmental stores on account of its central position.

(2) Customers can conveniently purchase all sorts of articles from a single shop. They need not move about elsewhere for buying those commodities. This saves their time and labour.

(3) As it is organized on a large scale, it can keep stocks of varied things of different manufacturers. So the customers can buy varied things of different producers.

(4) Departmental stores is established in posh area and it always sells better quality products. So the customers are assured of the quality and execellence of the products.

(5) Sometimes it arranges for home delivery service. At this customers can avoid the difficulty of carrying the goods to the home.

(6) It provides other services for the convenience of the customers, namely, restaurant, beauty parlour, music programme. telephone booth etc.

Advantages From the store's point of view—

(7) Since it is very often established as a limited company, it can get the necessary large amount of capital by issuing shares and debentures.

(8) In a departmental stores every department advertises for all others. When a customer enters into the store to buy an article from a department, he may be attracted to other departments and hence may be induced to buy commodities from those departments.

(9) Rich classes are usually the customers of a departmental store. Though the number of customers are not very large, it can effect Increased sales.

(10) As it buys in large quantities directly from the manufacturer or wholesaler, it can enjoy economies in buying.

(11) Advertisement for each department is not necessary. A centralised advertisement may serve the purpose. In this way, the cost of advertisement is reduced to a great extent.

(12) All the departments in the departmental stores are decorated and furnished beautifully to create pleasant environment so that the rich customers may feel comfort. But since the cost of decoration and furnishings is spread over all the departments, the average cost is reduced.

(13) As the departmental stores is resourceful it can afford to appoint expert purchase manager, salesmanager, salesman etc. Besides, activities of the different departments are performed by expertmen as the division of labour is introduced. This helps the smooth and efficient performance of all the activities in the stores.

(14) A comparative study of performances of different departments can be made to find out which departments are showing efficiency and which are not. The departments which are running in inefficiently, their staff can be trained on salesmanship to make them expert and efficient.

Disadvantages

The following are the disadvantages of a departmental stores-

Disadvantages from the customer's point of view—

(1) On account of its location at the centre of the city, customers from remote corners of the city find it difficult to purchase daily necessities from the store. They prefer to buy them from the local retailers.

(2) General consumers hesitate to buy small quantities and things of smaller value from this wealthy store.

(3) Maintenance cost is increased as all the departments are required to be decorated and because of advertisement for all the products. As a result, prices of the commodities sold by this store are higher than those of the local retail shop.

(4) It is alleged that the departmental store discriminates between the rich and the general consumers. As the rich and aristocrat customers buy in large quantities and valuable things, salesmen remain busy to satisfy them. They do not care to attend to the general consumers.

Disadvantages from the store's point of view—

(5) As it is required to maintain certain service departments simply to attract customers even though they are not profitable, its maintenance cost is likely to be very high.

(6) Because of high running and maintenance cost, it charges high prices and hence poor customers do not like to shop in this store.

(7) It is very difficult to manage and co-ordinate a large number of departments dealing in a large number of commodities. Managerial difficulties may very often arise.

(8) It demands a constant adjustment with the changing tastes and fashions and a high degree of entrepreneurial and managerial abilities which an average businessman is lacking.

(9) It requires to sell commodities according to the tastes and fashions of customers. But tastes and fashions are constantly changing. Hence, this type of retail trading is very risky.

(10) As it is organized on a large scale, proprietors cannot establish direct relation with the customers.

(11) A large amount of capital is required as varied commodities are sold through various departments.

Multiple Shop

Sometimes, manufacturers undertake to sell their products directly to consumers by opening up retail shops in different corners of a city or a country. **The retail shops which are opened by the manufacturer in different parts of a city or a country to sell a particular commodity or many varieties of a particular thing directly to the consumers are known as Multiple Shops.** Bata shoe stores are typical examples of multiple shops. Tata show rooms, DCM stores etc. are also examples of multiple shops. **The main function of the multiple shop system of retail trade is centralised production and decentralised sellling.**

Features

Large industrial enterprises, sometimes, sell their products directly to the consumers by opening multiple shops in different parts of the city and its neighbourhood. The multiple shops sell a particular commodity or many varieties of a particular commodity. Besides, certain other products ancillary to the main product are also sold, for example, in Bata shoe stores shocks and shoe-black are also sold. It is a vertical combination as the entire process from production to sale to the consumers is controlled by a single firm.

Usually, branch managers are appointed to look after several shops. Each manager is responsible for efficient administration of a particular shop. All these shops are again controlled by the head office which instructs the branch managers to follow an uniform policy in respect of management. Under a branch manager a cashier and a few salesmen are appointed.

The head office, generally a manufacturing centre supplies goods to different shops either from a central depot or from regional depots conveniently located at various regions for supplying products to nearby shops. The main duty of a branch manager is to sell goods at uniform prices fixed by the head office and his earnest endeavour would be to increase sales volume. All moneys are deposited to a central office or to a bank in the name of the head office. All expenses are defrayed by the head office.

Since standard varieties of a particular product are sold through several shops, the head-office finds no difficulty in maintaining a standard policy in respect of organization of each shop and its management.

Each branch manager submits periodical reports to the head office stating therein the amount of goods sold and the stock held by each shop.

For controlling the operations of various shops, inspectors are appointed. The inspectors pay surprise visits to different shops and see whether policies instructed by the head office are carefully followed, records are kept up to date etc. They, particularly, check cash receipts.

Locality and Premises

These retail shops are located at different populous localities of a country. Generally, in a populous city these shops are spread evenly over different areas. Like unit retail store these are established near the dwelling houses of the consumers. Bata shoe stores are found everywhere in Calcutta and its neighbourhood.

These shops are decorated in a similar fashion so that customers find no difficulty in purchasing the same varieties from the shops of their respective localities.

Advantages

The following are the advantages of multiple shop system—

(a) **Advantages from customer's point of view—**

(1) Customers find no difficulty in purchasing the product and purchase even without examination since multiple shops deal in standard varieties of a particular product.

(2) Customers do not also suffer from price discrimination usually practised by producers as uniform prices are charged in different shops.

(3) As the shops are located at almost all important corners of the country, customers can buy the popular product from a nearby shop without any expense. Their time is also not wasted.

(4) Customers can also buy at a cheaper price on account of the absence of middlemen in between the manufacturer and the consumer.

(5) They can purchase fresh quality, as the products are supplied directly from factories.

(6) Since the products are sold by the manufacturer directly, any defect in the goods can be brought to his notice. Producers can also take prompt action to remove the defects.

(7) The buyers need not higgle as the products are sold at fixed prices.

(b) **Advantages from Shop's point of view—**

(8) Centralised production is undertaken on a large scale. Hence, economies of large scale production can be secured.

(9) Manufacturer can easily get the information in respect of the impending changes in tastes and fashions as direct relationship is established between the manufacturer and his customers. As a result, manufacturers can produce commodities according to the tastes and fashions of customers.

(10) Cost of running different shops is not very high since a big building is not required to be hired or erected. Separate advertisement for each shop is not necessary. Therefore, a centralised advertisement by head office for every shop reduces cost. Moreover, as the shops are decorated in similar fashion and as they sell similar products, advertisement in one shop helps the publicity of another.

(11) Multiple shops always sell goods on cash basis. So they do not incur any loss on account of bad debts.

(12) As the goods are sold on cash basis. Capital is turned over with much rapidity. Hence, a large amount of capital need not be invested.

(13) Manufacturer can readily increase volume of sales on account of supply of fresh goods at lower prices.

(14) As the middlemen's profit is eliminated, producers can sell directly to the consumers at lower prices.

(15) At the sametime the manufacturer can enjoy a comparatively big margin of profit as middlemen are avoided.

(16) No shop suffers from shortage of stock as goods can be transferred from one shop to another.

(17) Separate warehouses for different shops are not necessary. Goods are supplied from a central warehouse and so cost of warehousing becomes less.

Disadvantages

The following are the disadvantages—

(a) Disadvantages from Customer's point of view—

(1) Multiple shops deal in only a particular commodity or a few varieties of a commodity. Therefore, customers cannot purchase a wide variety of articles from a single shop.

(2) Since it deals in a particular or a few varieties of a commodity, it lacks diversity in products. Hence, customers get tired of buying stereotyped products.

(3) it cannot provide for home delivery service.

(b) Disadvantages from shop's point of view

(4) It is very difficult to run and control the operations of various shops and hence managerial dificulties may, very often, arise.

(5) Individual initiative and enterprise are lacking as branch managers are not allowed to apply their judgement and skill. They are simply to introduce uniform policy directed by the head office.

(6) Multiple shop system may develop monopoly organisation threatening the existence of small producers or retailers.

(7) As the production is undertaken on a large scale and many shops are opened in different corners of a city, it requires a large amount of capital.

(8) It needs exceptional managerial ability which an average manufacturer in our country is lacking.

(9) Its running and maintenance cost is very high as a large sum is spent for paying rent for various shops and for decorating them.

(10) Multiple shop system is organized on a large scale and so it cannot adjust quickly with the changing conditions in the market

Distinction between Multiple Shop and a Departmental Store.

The following are the important points of distinction between a Multiple Shop and a Departmental Store.

(1) **Location**—Multiple Shops are located at the populous parts of the city or country but a Departmental Store is situated at the heart of a city.

(2) **Main Function**—Main function of a Multiple Shop is centralised production and decentralised distribution, whereas the chief business of a Departmental Store is decentralised purchasing and centralised selling.

(3) **Articles and Wares**—Multiple Shops deal in a few varieties of a particular commodity but a Departmental Store sells a wide variety of articles.

(4) **Mode of Trading**—A Manufacturer undertakes to sell his products through Multiple Shops but the proprietor of a Departmental Store is not a manufacturer. He is a retailer and chiefly engaged in retail trade of a wide variety of products.

(5) **Pricing**—A Departmental Store sells limited quantities of a wide range of commodities at high prices but a Multiple Shop is engaged in mass selling of standard products at cheaper prices.

(6) **Service Department**—A Departmental Store maintains certain service departments for rendering services to the customers but a

Multiple Shop does not render any services to the customers besides selling its products.

(7) **Type of combination**—In a Departmental Store wholesale and retail trading in various articles are combined and hence it is a lateral type of combination but Multiple shop is a vertical combination as it integrates manufacturing with all aspects of marketing.

(8) **Type of Customer**—A Departmental Store attracts only rich customers but a Multiple Shop approaches customers of both high and average financial capacities.

(9) **Economies of Large scale Production**—As the Departmental Store does not produce, it cannot secure economies of large scale production. But Multiple Shop manufactures commodities and so it enjoys economies of large scale production.

(10) **Elimination of Middlemen**—Departmental store procures goods from various sources and hence it cannot avoid middlemen. But Multiple Shop manufactures goods and then sells them through retail shops. So it can eliminate middlemen.

Chain Stores

Chain stores involve in retail trade of a wide range of products through opening branches at populous centres of a city or a country. It also deals in numerous varieties of standard products. Chain stores selling a particular product or a few varieties of a particular product are also found. A. Tosh's tea shops and reputed cloth stores having many branches are examples of chain stores. It is very popular in Europe and America. In the U.S.A. multiple shops are also called chain stores. In India these stores have become popular.

Chain store does not produce any commodity. It procures goods from various manufacturers and wholesalers. A central organization or head office is entrusted with the task of buying various things. It keeps them in a central warehouse. Goods are delivered to different stores from the central warehouse.

It may be established as a sole-proprietorship or partnership or a joint stock company. Branch managers are appointed to look after several branches. Under a branch manager a cashier and a few salesmen are appointed. Sale proceeds are deposited to a central or head office or to a bank in the name of the head office. It arranges for home delivery service. Normally it sells on cash basis. Sometimes, it also sells on credit.

Chain store enjoys certain advantages. These are—(1) Customers can buy various articles from a single shop. Besides, they can buy

better quality products. (2) As these are established in various populous centres, customers can buy from a nearby shop. (3) Consumers can buy either in cash or on credit. (4) Sometimes, goods are sent to customers' houses. (5) Since every shop is decorated in the same fashion, a shop helps the publicity of others. (6) Separate advertisement for each shop is not necessary. So centralised advertisement reduces cost.

It has also certain disadvantages. These are—(1) It does not manufacture commodities and so it cannot enjoy economies of large scale production. (2) As it procures goods from manufacturers and wholesalers, it cannot eliminate middlemen. (3) Direct relation between customers and the proprietor is not established as the goods are sold through various branches. (4) Exceptional managerial abilities are required for running several retail shops which an average businessman lacks. (5) Managerial difficulties very often arise on account of the administration of various branches. (6) It requires a large amount of capital which is very difficult to secure.

Distinction between Multiple Shops and Chain Stores

The following are the points of distinction—

(1) **Location**—Multiple shops are established in every locality but chain stores are set up in populous centres.

(2) **Mode of Trading**—Multiple shops manufacture products and sell them through retail shops. But chain stores do not produce commodities. They procure varied things from wholesalers and sell them through various branches.

(3) **Products**—Multiple shops deal in a particular commodity or a few varieties of a particular commodity. But chain stores sell various commodities.

(4) **Elimination of Middlemen**—Multiple shops can eliminate middlemen but chain stores cannot.

(5) **Economies of Large Scale Production**—Multiple shops can enjoy economies of large scale production but chain stores cannot, for they do not produce commodities.

(6) **Type of Combination**—Multiple shop system is a vertical combination as it combines manufacturing with marketing. But chain stores is a lateral combination as it integrates wholesale trade with retailing.

(7) **Main Function**—The main function of Multiple shop system is centralised production and decentralised selling. But the main function of chain stores is decentralised purchasing and decentralised selling.

Supermarket

A new type of retail trade known as Supermarket has been developed in the U.S.A. In a supermarket various products from perishable commodities like fish, milk, fruits, vegetables down to durable goods like readymade garments, cloths, luxury products, stationeries and even motor cars are sold. Various products are sold through several departments. Salesmen are not provided for in each department. Customers are required to get the articles by themselves from different departments and pay the price to the cash department situated near the exit gate.

Sometimes salesmen are engaged in different departments. They sell to the consumers who collect goods from various departments.

In the U.S.A. it is not restricted to any particular type of ownership but in India it is chiefly organised as a co-operative association.

At Delhi a Supermarket has been established in the name of 'The Co-operative Stores Limited'. Few other markets have been established at other parts of the city. At Calcutta supermarket is named as 'Samabayika'.

The essential feature of a supermarket is that it purchases various articles in large quantities directly from different manufacturers or wholesalers and sells them through a number of departments at fair prices.

Other Retail Trades

✓ **Hire Purchase Trading and Instalment Payment System**

Hire purchase trading is a method of distribution of high priced articles. Hire purchase agreement provides that a purchaser can pay for the goods on periodic instalments. But the buyer does not get the ownership unless the full value of the goods purchased is paid. In case of his default the seller can take back the goods and the buyer loses the amount already paid.

This method of trading provides opportunities to customers having poor financial capacity to buy high priced articles, as they are not required to pay full value at a time. It also facilitates small manufacturers to buy machinery of higher value. The seller can also, in this way, increase the sale of costly articles.

But Hire-purchase buying is very inconvenient to the average customers, as they cannot get the ownership and in case of default they would lose the entire amount already paid.

In that respect Instalment Payment System is convenient to the ordinary buyers. Under this system the buyer can get possession as well as ownership, when the first instalment is paid. In case of default the seller can sue for unpaid balance but cannot take back all the goods. Hence, the buyer cannot lose the amount already paid.

Distinction between Hire Purchase and Instalment payment purchase

The following are the points of distinction—

(1) In the case of hire purchase, agreement which is entered into by the parties is known as hire purchase agreement whereas, in the case of instalment payment, contract is called contract of sale.

(2) Ownership of goods in hire purchase is transferred only when last instalment is paid. But in instalment payment ownership is transferred on the payment of first instalment.

(3) Instalment in hire purchase is regarded as hire charge but in instalment payment it is a part of price of goods.

(4) In the case of hire purchase the seller can take back the goods if the buyer defaults in paying instalments. But in instalment payment the seller cannot take back the goods if the buyer defaults. He can only sue for unpaid price.

(5) The buyer cannot sell the goods bought on hire purchase for he is not the owner. But in instalment payment, the buyer can sell as the ownership is transferred to him.

(6) In hire purchase the seller can take back the goods if the buyer defaults but the buyer does not get back the money already paid. Hence, he sustains loss. In instalment payment the buyer does not incur any loss for the seller cannot take back the goods if the buyer defaults.

Mail-Order Business

It is a type of retail trade. It sells various commodities through post office only and does not involve in any type of personal selling. It receives orders through post and executes those orders by post.

It advertises in the newspapers mentioning therein particularly the various products it deals in. It also sends circulars along with catalogues, price lists etc. for getting orders from customers. It persuades customers with follow ups and induces them to place orders. Goods are sometimes despatched on 'sale or return' basis guaranteeing to take those articles back if the customers do not like them. This type of business provides immense facilities to those who are busy people and have no time to buy personally their necessities from retailers' shops.

All goods cannot be bought and sold through this type of business. Only those goods which (1) can be sold by description, (2) are not liable to be spoilt or damaged in transit, (3) non perishable, (4) can be sold at lower than market prices and (5) are available in large quantities at any time, can be dealt in through Mail-Order Retail trade.

Trader may get the payment in advance but usually articles are despatched under value payable post (V.P.P).

Since home delivery is an essential prerequisite of mail-order trade, customers can avoid the trouble and inconvenience of going to the retailers for shopping.

On account of cheaper prices for elimination of middlemen the trader can effect increased sales of standard products and can, thereby, make more profits.

But the success of mail-order business is dependent on the availability of postal facilities. Moreover, the trader cannot also provide after-sale customer services, as there is no personal contact between the trader and his customers. Average customers are reluctant to buy mail-order goods, as they have no scope for inspection before purchases. Lastly, a retailer can approach all customers both educated and uneducated but a trader doing mail-order business cannot attract illiterate customers.

Distinction between wholesale Trade and Retail Trade

The following are the points of distinction—

(1) **Source of Supply :** Wholesaler procures the goods from the manufacturer but a retail trader gets the supply either from the manufacturer or from wholesaler.

(2) **Method of Trading :** Wholesaler procures the goods from the manufacturer and sells them to the retailer. A retailer gets the goods from the wholesaler and sells them to the consumers.

(3) **Quantity of Purchase and Sale :** Wholesaler buys and sells commodities in large quantities. A retailer buys goods in large quantities but sells in small quantities.

(4) **Capital :** A large amount of capital is invested in wholesale trade as a wholesaler buys and sells in large quantities. Moreover, he also sells on credit and gives advance to the manufacturer. But a smaller amount of capital is required in the retail trade as the retailer buys and sells goods in smaller quantities. Besides, he sells on cash basis and so capital is turned over with much rapidity. Hence, a retailer can do a greater amount of business with a smaller amount of capital.

(5) **Risk :** Risk is high in the wholesale trade as the wholesale prices fluctuate very often. Wholesalers also deal in futures (forward contract). Future dealing increases risk. But retail prices do not fluctuate much. So risk is not very high in retail trade. Retailers do not also deal in futures.

(6) **Prices of Goods :** Wholesalers stabilise prices by supplying goods according to the demand. Question of stabilising prices does not arise in retail trade as the retailers sell goods at the available market price.

(7) **Payment of Price :** Wholesalers buy and sell in cash and on credit. A retailer buys and sells in cash. But, sometimes, he buys on credit and sells goods on credit or on hire purchase or by instalment payment.

(8) **Extent of Business :** As the wholesaler sells goods to distant markets, his business extends all over the country and even outside the country. But a retailer restricts his business to a local area.

(9) **Number of Commodities :** Wholesalers deal in one commoditiy or two but a retailer deals in various commodities.

(10) **Intermediary Business** : Wholesaler acts as a middleman between manufacturer and retailer whereas, a retailer is a middleman between the wholesaler and the consumer.

Questions

Essay Type

(1) What is wholesale Trade ? Write what you know about its functions.

[Ans. Wholesale Trade and its functions]

(2) What do you mean by Wholesale Trade ? Classify wholesale Trade.

[Ans. Wholesale Trade and its function—classification of wholesale Traders]

(3) What are the functions of a wholesaler ? How is wholesale trade organized ?

[Ans. Wholesale Trade and its functions—Oranization of wholesale Trade]

(4) Discuss the usefulness of wholesale Trade to a producer and to a retailer.

[Ans. Usefulness of wholesale Trade]

(5) Discuss the usefulness and demerits of wholesale Trade.

[Ans. Usefulness of wholesale Trade—Disadvantages]

(6) Write a short essay on the economic and social justification of retail trade.

[Ans. Economic and Social importance and functions]

(7) You desire to set up a retail store. What enquiries would you make before coming at a decision as to locality, sources of supply and capital? [H.S. 1979]

[Ans. Organization of Retail Trade]

(8) Enumerate the various forms assumed by retail trade when it is conducted on large scale. Set out carefully the chief characteristics of any one of the forms you mention.

[Ans. Large scale Retailing—Departmental Stores or Multiple shop—only features]

(9) Retail trade is the last stage of the channel of distribution. Describe the channel bringing out the aspects of either wholesale or retail trade.

[Ans. Channels of Distribution—Economic and social importance and functions—Organization of Retail Trade—Wholesale Trade and its functions—Organization of wholesale Trade]

(10) Discuss what you know about the importance and functions of Retail Trade.

[Ans. Economic and social importance and functions]

(11) What are the functions of a retailer? How is retail trade organized?

[Ans. Economic and social importance and function—Organization of Retail Trade]

(12) What is a Departmental Stores? How is Departmental stores organized? What are its merits?

[Ans. Departmental Stores—Features—Advantages]

(13) Discuss the merits and demerits of Departmental Stores.

[Ans. Departmental Store—Advantages and Disadvantages]

(14) What is Multiple Shop? How are Multiple Shops organized? What are its merits?

[Ans. Multiple Shop—Features—Advantages]

(15) Discuss the advantages and disadvantages of Multiple shop.

[Ans. Multiple Shop—Advantages—Disadvantages]

(16) Distinguish between Departmental Stores and Multiple Shop.

[Ans. Distinction between Multiple Shop and Departmental Stores]

(17) What is Chain Store? How is it organized? What are its Merits and Demerits?

[Ans. Chain Stores]

(18) What do you mean by Chain Stores? Distinguish between Multiple Shop and Chain Store.

[Ans. Chain Stores—Distinction between Multiple Shop and Chain Stores]

(19) What are Hire Purchase and Instalment Purchase? Clearly bring out their distinction.

[Ans. Hire purchase trading and Instalment payment system—Distinction]

(20) Clearly bring out the distinction between Wholesale Trade and Retail Trade.

[Ans. Distinction between Wholesale Trade and Retail Trade]

Short Answer Type

(1) Explain the principal aspects of organization of wholesale trade. [H.S. 1978]

[Ans. Organization of Wholesale Trade]

(2) Explain with examples—

Small Wholesale Trade; Specialised Retailing; Multiple Shop. [H.S. 1979]

[Ans. Classification of Wholesale Trade—Small and Big Wholesaler—Different Types of Retail Trade—Multiple Shop—features]

(3) Give examples of Specialised, General, Regional and cash wholesalers.

[Ans. Classification of Wholesale Trade]

(4) You desire to set up a wholesale business. What enquiries would you make before coming at a decision as to the locality, sources of supply, warehousing and capital.

[Ans. Organization of Wholesale Trade]

(5) How does wholesale business facilitate production of commodities.

[Ans. Usefulness of Wholesale Trade—Manufacturers are benefited in the following ways]

(6) What facilities are provided by the wholesale business to the retail business and consumers?

[Ans. Usefulness of Wholesale Trade—Advantages to Retailers—Consumers are benefited in the following ways]

(7) What is social significance of retail business?

[Ans. Retail Trade—Economic and Social importance and functions]

(8) What are the functions of a retailer ?

[Ans. Retail Trade—Economic and social importance and functions]

(9) What type of capital is necessary in a retail business and how is it estimated ?

[Ans. Organization of Retail Trade]

(10) Give three examples of small scale retailing and discuss their characteristics.

[Ans. Small Scale Retailing]

(11) What types of retail business are found ?

[Ans. Different types of Retail Trade]

(12) Discuss the different channels of selling merchandise.

[Ans. Channels of Distribution]

(13) Explain with examples—Broker's business ; Large scale retailing ; Hire purchase business. [H.S. 1978]

[Ans. Broker (Purchase and Sale Chapter) Large Scale Retailing—Hire Purchase Trading and Instalment payment System]

Objective Type

(1) Mention which of the following trading organizations are wholesale or retail in nature—

Sweetmeat shop ; Ration Shop ; Consumers Co-operative Stores ; Film Distributor ; Bata Shoe Shop ; Coal Depot ; Sole Distributor for an industrial consumer product. [H. S. 1979]

(2) Mention which of the following trading organizations are wholesale or retail in nature—

Grocer's Shop ; Regional Selling Agent for Electronic Clocks ; Sole Distributor for Motor parts ; Chemists and Druggist's Shop ; Producer's Co-operative Society ; Khadi Emporium.

(3) How does wholesale business procure commodities ?

(4) How does a retailer procure goods ?

(5) Which Trades are middlemen's trade ?

(6) How does Mail order business sell commodities ?

(7) Can a sweetmeat shop be a wholesale business ?

(8) State True or False

(a) Tailor's shop is a wholesale business.

(b) Wholesaler sells goods to retailer.

(c) In hire purchase ownership is transferred when last instalment is paid.

(d) In retail business a large amount of fixed capital is necessary.

(e) Departmental Stores is established in rural area.

PART II

[SECOND PAPER]

CHAPTER I

FOREIGN TRADE

Meaning, Basis and Importance

Trade is mainly of two types, namely, Home Trade and Foreign Trade. Home Trade refers to buying and selling within the national boundary and **foreign trade signifies trade with other countries. It usually refers to export trade and import trade.** Basically, there is no difference between home trade and foreign trade. Home trade arises out of regional specialisation. For the same reason foreign trade arises. Political boundaries do not or cannot bring about any great change in the nature of trade. Trade between India and Pakistan is now called international trade but prior to partition it was home trade.

International trade arises on account of territorial specialisation. All countries are not endowed with the same types of natural resourses. The United Kingdom has coal, India has jute and mica, Soviet Union has petroleum and manganese, Egypt has cotton and the U. S. A. has iron ore and so on. Moreover, economic advantages are not same in all countries. The U.K. and the U.S.A. have no dearth of capital and efficient labour. But India, Pakistan and Malayasia do not possess much technical know-how, improved machinery and equipments.

A country specialises in the production of those goods for which the country has maximum advantages. It can produce those goods at a lower cost and exports the same to the other countries. It imports those goods which it cannot produce or for which it has no specific advantage. India has certain specific advantages for the production of Jute and hence can produce it at a very low cost, whereas the U. K. can produce steel at a lower cost on account of natural and economic advantages. India can produce steel but not such a cost as the U. K. can produce. On the otherhand, the U. K. cannot produce jute on account of the absence of physical conditions. Therefore, India should export jute only and import steel and the U. K. should produce and export steel and import jute. This is the basis of international trade and it stands chiefly on the principle of comparative cost.

Advantages of Foreign Trade

The following are the advantages of foreign trade—

(1) International trade leads to specialisation and hence enables

a country to utilise to the maximum extent its natural resources and efficient factors.

(2) A country can get those goods which it cannot produce or can obtain goods at a cheaper price from other countries. Hence consumers are benefited.

(3) It leads to the best allocation of world resources.

(4) Market can be extended over a wide area.

(5) It helps in removing rivalry between different countries and promotes international peace and harmony.

(6) It fosters exchange of culture and ideas between countries having greater diversities.

(7) As a result of the widening of the market, production of the different commodities is increased.

Disadvantages of Foreign Trade

The following are the disadvantages –

(1) A country loses self-reliance as it produces those commodities only for which it has specific advantages.

(2) If the foreign trade is not controlled and a free trade policy is followed, the developing countries cannot compete with the developed countries. As a result, industrial development in the developing countries will be hampered.

(3) Sometimes, commodities are exported to the foreign countries simply for earning foreign exchange even though there is the scarcity of those goods within the country. This affects adversely the consumers' interest of the country.

(4) If for war or anyother reasons a crisis is developed in the international sphere, countries engaged in the foreign trade will face tremendous inconvenience.

Distinction between Foreign Trade and Home Trade

Though the basis of foreign trade and home trade is the same, certain differences between them are found. These are as follows—

(1) When trade is effected within the political boundary of a country, it is known as home trade. On the otherhand, trade with other countries outside the political boundary of a country is called foreign trade.

(2) Certain Rules and Regulations are observed in respect of foreign trade. These are dock and customs formalities. But these formalities are not required to be followed in home trade.

(3) At present, foreign trade in different countries is controlled. Free trade policy is not being followed. Both export and import are controlled. Home trade is not controlled. But sometimes, home trade in respect of essential commodities like rice, wheat, sugar, paper etc. is restricted.

(4) In the case of home trade payment is made in home currency. But in the case of foreign trade payment is made in foreign currency. It means that home currency is converted into foreign currency or by acquiring foreign currency payment for import is made. If anything is imported by an Indian dealer from the U. S. A., he is to make payment for such import by dollar. On the otherhand, when he exports any commodity to the U. S. A. he expects payment in rupee currency.

(5) Both retailing and wholesale trading are found in home trade but in th the case of foreign trade only wholesale trade is effected.

(6) Home trade satisfies only the varied wants within the country. But foreign trade satisfies various wants of different countries.

(7) Very often letter of credit is required in foreign trade but this is not necessary in the case of home trade.

(8) Very often licence is required to be taken from the customs authority for export and import. But licence is not necessary in the home trade save and except a few commodities.

Control of Foreign Trade

Foreign trade has now been controlled for various reasons. Even after the First World War, Laissez Faire or free trade policy was followed by almost all the countries. During thirties foreign trade was controlled particularly by Germany. After the Second Great War world organisations for fostering international trade and International Monetary Fund have been established for providing exchange facilities and determining multilateral exchange rates. Despite these efforts every country now considers that its foreign trade should necessarily be restricted.

The necessity of control arises for the following reasons—

(1) For the purpose of industrial development, particularly underdeveloped countries are now restricting import trade. Import of non-essential consumers' goods has been controlled to preserve foreign exchange.

(2) For achieving self-sufficiency and hence lessening dependence on foreign assistance, foreign trade is controlled.

(3) For proper allocation of foreign exchange and particularly to facilitate importation of essential raw-materials, machinery and equipments, restrictions are imposed on import of other goods.

(4) For removing unfavourableness in the balance of trade imports are now controlled.

(5) In a planned or regulated economy both exports and imports are restricted to facilitate execution of the plan.

(6) Export of certain valuable resources is controlled for their preservation or for better utilisation within the country.

(7) During war time restrictions are imposed on both export and import for diverting foreign exchange and other resources towards war production.

(8) For establishing defence industries to arrange for war preparations both imports and exports are harnessed.

(9) For maintaining austerity during national emergency import of luxury and other non-essential products is regulated.

Control organisation

For operating control of foreign trade the following authorities are involved—

(1) **Ministry of Foreign Trade**—Considering overall economic and foreign exchange position Ministry of Foreign Trade formulates the basic policies in respect of export and import. It restricts importation of certain commodities and controls or withdraws restrictions on export of certain other commodities. It announces import policy six months in advance. For this purpose, it issues licences and chief controller of import and export is instructed accordingly so that nobody can import and export restricted goods and necessary foreign exchange is not released.

(2) **Customs Authorities**—These authorities impart control over actual transfer of goods from home country to the foreign countries or vice versa. The main function of the custom authorities is not only to levy export and import duties but also to keep a close watch over movement of goods. For this purpose, the authorities require every importer and exporter to follow certain custom formalities.

In case of import an importer is required to fill in **'Bill of Entry'** in triplicate mentioning therein the value, quantity and description of goods. In case the importer is not in a position to give information to the customs authorities regarding imported goods, he fills in 'Bill of Sight' to declare all that he knows about the goods. He is allowed, of course, to open the packages and examine the goods to prepare the bill of entry.

In case of export an exporter is required to fill **'Shipping Bill'** mentioning therein value, quantity, description of goods, name of the

ship and destination. With the shipping bill export licence is attached. He is also to pay dock dues and fills in forms for this purpose.

(3) **Port Authorities**—Port authorities are empowered to control shipment of goods. They look after loading and unloading of cargoes. All exporters and importers are required to furnish all information in respect of merchandise and are to pay dock dues. Warehouses are also maintained by the port authorities for storing goods to be shipped or for unloaded goods. Port Trusts or commissioners are entrusted with the responsibility of managing ports. All major and minor ports are under their control.

Classification of Exporters

Exporters are generally classified into three classes, namely, **Manufacturing Exporter, Merchant Exporter and Government Export Agency.**

Manufacturing exporter exports commodities to the foreign countries in three ways—

(a) He can export directly to the foreign importer.

(b) He can supply the goods to the foreign wholesaler for the purpose of selling them in the foreign country.

(c) He can also export to the foreign country through the Import House situated in the foreign country or through foreign import brokers.

Merchant exporters are classified as—

(a) **Merchant Exporter** : They are expert in the matter of export of goods to the foreign countries. They procure goods from the manufacturers of the country and export them to the foreign countries.

(b) **Export House** : These enterprises are situated in the exporting country as representatives or agents of the foreign importers and supply the goods to their respective countries after securing them from different exporters.

(c) **Foreign Buyers** : As agents of the foreign importers they buy goods from the markets of the exporting country or procure commodities from different exporters and send them to the importing countries.

(d) **Forwarding Agent** : They undertake all responsibilities of exporting goods on behalf of the manufacturers. They take commission as remuneration for the services they render.

(e) **Export-Import Brokers** : They export goods as middlemen between exporter and importer. They get commission as remuneration.

Government Export Agencies : Government of India has established certain export agencies in the public sector for increasing export

of the country. Of these agencies the important are State Trading Corporation, Handicrafts and Handlooms Export Corporation, Minerals and Metal Trading Corporation, Project and Equipment Corporation and Mica Trading Corporation etc.

State Trading Corporation was established in 1956 as a private limited company. Its authorised capital is Rupees five crore and paid up capital is Rupees one crore. At present paid up capital has been increased to Rupees two crore. Its main function is to increase exports of the country and to explore export markets of different commodities. Besides, it exports to and imports various commodities from socialist countries.

Annual Report of the Corporation of 1979-80 reveals that the total sales in 1979-80 was Rupees 1468 crore. It was 30% more over previous year's sales. In 1979-80 its export was Rs. 628 crore. In the year 1978-79 the exports were Rs. 602 crore. Now the Corporation has taken initiative of exporting cottage industry products to the foreign markets. For that purpose it is making all out effort to make the cottage industry products exportable. This Corporation has also established new factories with foreign collaboration. Products of these factories will be exported to the international markets. It is inviting collaboration from the foreign countries for the purpose of manufacturing exportable commodities. Of these exportable commodities the important are shoe, fish, fresh fruit, wheat products and furniture etc. Besides, it is exporting various commodities manufactured at the Government undertakings as their agents. It is also helping many export promotion boards that have been established for increasing the export of various commodities. Moreover, it has also undertaken the responsibility of importing essential raw materials for increasing industrial production of the country.

Handicrafts and Handloom export Corporation has been established for the purpose of increasing the export of handloom products. It has taken various measures for making handloom products popular in the foreign markets.

Minerals and Metals Trading Corporation has been established for exporting minerals. It is a subsidiary of State Trading Corporation. It exports iron ore, coal, manganeese etc.

Projects and Equipment Corporation has been set up for exporting engineering products and railway parts. It exports different railway parts to the African and Middle Eastern countries.

Mica Trading Corporation has undertaken the entire responsibility of exporting mica to the different foreign markets.

Classification of Importers

There are three classes of importers, namely, **Manufacturing Importer, Merchant Importer and Government Import Agencies.**

Manufacturers of a country very often import raw materials, machinery, ancillary products etc. directly from the foreign exporters. When manufacturers import in this way, they are known as manufacturing importers.

On the otherhand, Merchant importers secure orders from different manufacturers and buyers and then import goods from the foreign countries. Sometimes, they import commodities as brokers. They also import directly from the foreign countries and sell them to the buyers of the home country.

Moreover, some Government agencies are also engaged in importing various commodities from the foreign countries. State Trading Corporation imports varied things. It explores also various import sources. It imports particularly raw materials, machinery, machine tools and machine parts for supplying them to various industries of our country.

Minerals and Metals Trading Corporation imports many things, particularly rare minerals.

Besides, Projects and Equipment Corporation is engaged in importing varied types of machinery from the foreign countries.

Indent Business

Small producers or manufacturers or traders in India may not export or import goods directly, chiefly for getting themselves rid of the extra trouble of observing various formalities in connection with foreign trade. They refer the whole task or responsibility to a class of intermediary known as Indentee or Indent firm to import commodities on their behalf. This type of middleman is a connecting link between exporter and importer. Indent firm receives the remuneration on the basis of commission.

The main function of the indentee firm is that it places the order with the foreign manufacturer on behalf of the importer and takes all troubles of import. But the indentee is not responsible for the risks involved in importing the goods. All risks are borne by the importer or indentor. Generally, the indentee firm secures several small indents from various importers and places them with one or few firms in the foreign country. By this he gets concession or better price.

Sometimes, the foreign manufacturing firm or exporting firm or trader appoints agents or representatives in India to secure indents from the Indian merchants and send them to the foreign firms.

This type of importing goods through intermediary is known as **Indent Business.**

The indent business can claim various advantages, namely, (1) It enables the small merchant to import the goods from the foreign countries. (2) It enables the small merchants in India to buy the goods from the big manufacturer abroad. Usually, the big manufacturing firms in the foreign countries do not entertain the small orders. But the indentee firm places with them large orders after securing small indents from various importers in India. (3) As the indentee places large orders, he secures better price for .the importer. (4) He is an expert in this line and, therefore, he can give valuable advice to the importer. (5) Sometimes, small Indian merchants fail to get any credit from the exchange bank to finance their imports. In that case they seek the help of indentee firms. (6) The indent firm can collect latest information in respect of new articles and the foreign firms can also secure a large amount of orders through the indent firms who are well aware of local markets.

But the indent firm is not to bear any risks in connection with the import of goods and, very often, it exploits the small traders and makes unauthorised profit.

Export Procedure

For exporting goods from India to foreign countries an exporter is required to follow the under mentioned procedures—

(1) **Indent or Order**—First of all, an exporter is to receive an indent or order from the foreign importer. Indent means a buying order to an agent or an order placed directly on foreign seller to supply certain goods. It may be 'open' or 'closed'. Closed indent specifies the source or sources from which goods are to be purchased and the price or prices to be paid. When details in respect of goods and prices to be paid are not mentioned, it is an 'Open Indent.' An order usually contains quantity, value, description of goods, method of payment, instructions for shipment etc.

(2) **Securing Licence**—After receiving the order the exporter is required to get licence from the Controller of Export and Import. If the goods are under O.G.L. (Open General Licence), it is not necessary to secure any licence.

(3) **Arrangement for Letter of Credit**—If the exporter does not know the foreign importers or if he has not confident about the credit-worthiness of the foreign importer, he requests the importer to arrange for a letter of credit -from a bank. **A Letter of**

Credit is an advice issued or undertaking given by a bank that bills drawn on the banker by the exporter, according to the terms of letter of credit, will be honoured. An Importer usually requests the bank to issue a letter of credit in favour of the exporter. An unknown importer can import goods in this way by opening a letter of credit with a banker.

Sometimes, an exporter demands that a certain percentage of the total price or full amount is to be paid before hand. In the case of an established importer a mere bank reference may be sufficient.

(4) **Procuring Goods**—After receiving the order the exporter arranges for the procurement of goods from different sources. If he is a manufacturer, the question of procuring goods does not arise.

(5) **Packing and Marking**—Packing and marking of goods are very important in foreign trade. Goods are packed properly for ensuring safety and marked with the name of the exporter or the importer and the port of destination.

(6) **Shipping Order**—After this the exporter arranges for the reservation of ship's space and contacts a shipping company for this purpose. If the shipping company agrees, the company issues a 'Shipping Order' to the exporter. Shipping Order signifies an order to the Captain of the ship directing him to receive exporter's goods on board of the ship.

(7) **Forwarding of Goods and Booking of Exchange**—Goods are then forwarded to the port directly by the exporter or he may arrange for the forwarding of goods by a Forwarding Agent who undertakes all responsibilities in this respect on behalf of the exporter. Besides these, an exporter is to book in advance the exchange rate to guard against unfavourable fluctuations in times of payment. He is also required to give a declaration to the exchange control authority that he will deposit the foreign exchange he earns by such exportation. This is particularly required in India now.

(8) **Customs Requirements**—The next step of the exporter is to pay export duties, if any, and for this purpose, to fill in 'Shipping Bill' or 'Customs Challan' in triplicate and to get a Customs Export Pass. Shipping Bills for non-dutiable goods are different from those of dutiable goods.

(9) **Shipping Procedure**—Packed goods are then forwarded to the dock and a **Dock's Receipt** is obtained. When goods are delivered to the ship, the captain of the ship issues a certificate known as **Mate's** Receipt. After this, the exporter places the mate's receipt to the shipping company and gets a Bill of Lading.

Bill of Lading is a document of title to goods issued by a shipping company acknowledging the receipt of the goods and undertaking to carry the goods to the destination under terms and conditions mentioned therein. It is not a negotiable instrument but it can be transferred by endorsement and delivery.

This bill is given to the exporter on payment of freight charges. The bill of lading may also be marked with 'Freight Forward' which means that the freight will be paid by the importer. A shipping company also charges **Primage** or supervision charges for supervising loading of goods.

(10) **Marine Insurance**—The exporter then contacts a Marine Insurance Company to insure the goods against all risks of sea transport. The Company undertakes to pay compensation to the exporter for loss or damage of goods in transit.

(11) **Preparing Invoice**—The next task of the exporter is to prepare several copies of the invoice to be sent to the importer through the bank. The invoice contains the prices to be paid, quantity and quality of goods etc. Several copies of the invoice are sent to the importer both directly and through bank along with other documents, namely, Bill of Exchange, Bill of Lading, Marine Insurance Policy, Consular Invoice, Certificate of Origin etc.

Consular Invoice is a document issued by the consul of the importer's country stationed at the exporting country to facilitate the importer to clear the goods from the Customs Authority there.

Certificate of Origin is issued by the Government of the exporting country or by the Consul of the importing country posted at the exporting country or by the Chamber of Commerce certifying that the goods are produced in the exporting country. The exporter is to procure this certificate and send the same to the importer to enable him to get tariff concession, if any. Tariff concession may be granted by the importing country in accordance with the terms of any trade agreement or for preferential treatment as in the case of Commonwealth or E.C.M.* countries.

(12) **Receiving Payment**—After the goods are despatched, the exporter is to receive the amount of the goods. For this, he draws bills of exchange in sets of three and sends all these bills to an exchange bank having branch or agent at the importing country along with other documents, namely, Bill of Lading, Trade Invoice, Consular Invoice, Certificate of Origin, Insurance Policy etc. This bill may again be

* European Common Market

D/A (Document Against Acceptance) or D/P (Document Against Payment) bill. In the case of D/A bill documents are handed over to the importer on his acceptance of the bill. In that case the exporter must wait till maturity of the bill for securing payment. But he can discount the bill with the banker. For this, the banker demands from the exporter a 'Letter of Hypothecation' which empowers the bank to sell the goods in case the importer dishonours the bill. In the case of D/P bill the documents are given to the importer when the payment is made.

(13) **Closing the Transaction**—When the importer is satisfied as to the quantity, quality etc. of the goods delivered to him, the transaction is closed. On the other hand, if the goods are not up to the standard and the importer is dissatisfied, the transaction is closed after further negotiation.

Import Procedure

A business man or a manufacturer may import commodities directly from abroad or contact an agent or an indent firm. In any case the following procedures are to be followed—

(1) **Import Licence**—First of all, an importer is to procure a licence from the Import Trade Controller. If the commodities to be imported are listed under open general licence, permit or licence is not required to be obtained.

(2) **Issuing Order or Indent**—The next task of the importer is to issue order or indent to the foreign exporter specifying therein the quantity, quality, prices of goods, mode of payment, shipping procedure, date of delivery etc. In the case of closed indent, quality, brands and prices of goods are specified. But in the case of open indent, sources of purchase and prices are not mentioned.

(3) **Letter of Credit**—If the importer is unknown or not an established firm, arrangement is made with an exchange bank having branch in the exporting country so that the bank can issue a letter of credit in favour of the exporter. By this arrangement, the bank undertakes to honour bills drawn on the importer by the exporter. An importer may sometimes be required to pay full amount and in the case of an established or reputed firm a mere bank reference may be sufficient.

(4) **Booking of Exchange**—Importer must secure foreign currencies, as he is to pay for the goods. Exchange rates very often fluctuate and hence a prudent importer always fixes exchange rates beforehand so that he may not suffer from unfavourable rates in times of payment.

(5) **Advice Note From Exporter**—After this the importer waits for the advice in respect of shipment from the exporter. The exporter sends information or advice note intimating that the goods have been despatched and also furnishes documentary bills through the bank.

(6) **Paying for the Bills**—The importer will not get the documents until he accepts or pays for the bill. In the case of D/A bill documents are handed over to the importer when he accepts the bills and in the case of D/P bill documents are given on payment.

(7) **Customs Formalities**—After getting the documents the importer proceeds to take delivery of the goods. Before that he is to observe certain formalities required by the customs authority. After arrival of the ship, the captain submits a ship's report to the customs authority. And the importer fills in Bill of Entry in triplicate incorporating therein every detail in respect of the goods. In case the importer is not in a position to give detailed information concerning goods, he is required to fill in 'Bill of Sight' declaring his inability to furnish any thing about the goods. Again, if the goods are not free from duties, the importer is to pay for import duties after getting the goods appraised by an appraising officer. The appraiser examines the documents and determines the value of the import duty. The importer fills in a memo and pays for the import duty. Then the Bill of Entry is sent to an officer of the customs department. The customs officer writes the words 'Appraise and pass' and signs the bill of entry. This is the permit for unloading the goods. Then all the documents are sent to the jetty and the appraiser of the jetty examines the goods and writes on the document that duty has been appraised.

Then the importer is required to observe port formalities. First, fees are paid to the port authority. After this, the importer submits the permit obtained from the customs authority to the Jetty Sarkar or Foreman who sends it again to the appraiser of the customs department. Then the port authority allows the unloading of goods. It issues a gate pass to the importer.

By this time the importer obtains 'delivery order' from the shipping company empowering the importer to take delivery of the goods. When the freight is to be paid by the importer, he does not get delivery from the shipping company unless he pays for the freight.

In case an importer is unable to pay for import duties, he can keep the goods in a customs warehouse or Bonded Warehouse and take delivery of the goods either in full or in part as and when duties are paid.

(8) **Closing the Transaction**—When the importer is satisfied as to the quantity and quality of goods, the transaction is closed. On the

other hand, if he is dissatisfied on account of inferior quality or shortage of goods, the transaction is closed after further negotiation between the exporter and importer.

Price Quotations

(1) **C.I.F.**—It means **cost, insurance and freight.** This is a type of price quotation which includes not only the prices of goods, but also all expenses which are necessarily incurred for the delivery of the goods to the destination.

(2) **C.I.F. & E.**—This price quotation means **cost, insurance, freight and exchange.** It includes prices of goods, all charges for the carriage of goods to the destination and also the risks of exchange rate fluctuation.

(3) **F. O. B.**—It signifies **free on board** and includes prices of goods and all expenses incurred for placing the goods on board the ship but does not include insurance and freight.

(4) **F. A. S.**—The abbreviation stands for **'Free alongside the ship'.** This price quotation signifies that goods are delivered by the seller free of charges to the ship or wharf. Buyer is, therefore, to bear all expenses from loading operation down to bringing them to his godown.

(5) **Loco**—It is known as **ex-warehouse price** and includes only the cost of goods at the place of purchase. Buyer is to bear all expenses for removing the goods from the seller's warehouse to his godown.

(6) **Franco or Rendu**—It refers to the price that includes all sorts of expenses upto the delivery of the commodities in the warehouse of the buyer. This quotation is also called **warehouse to warehouse price.**

(7) **F. O. R.**—This price includes all expenses upto delivering the goods on rail or wagon. It refers to **'free on rail.'** It is also known as F.O.W. which means 'free on wagon'.

(8) **Landed**—The price includes all expenses upto the landing of the goods at the port of import.

(9) **In Bond**—This price quotation includes all expenses upto the delivery of goods at the bonded warehouse at the port of import.

Other Terms and Documents in connection with Foreign Trade

(10) **Ship's Report**—After arrival of the ship at the port of import the captain of the ship is required to submit a report known as **'Ship's Report'** or **'Import manifest'** to the customs authorities. **It** facilitates them to verify it with the bill of entry submitted by the

importer for determining the import duty. It contains details in respect of the goods, crew and the ship.

Similarly, an exporter is to submit **'Export manifest'** to the customs authority twenty four hours before the departure of the ship.

(11) **Bill of Entry**—It is a document submitted by an importer to customs authority stating therein the quantity, value and description of the goods. It is to be filled in triplicate by the importer. There are three types of bills of entry, namely, (a) Bill of Entry for free goods (b) Bill of Entry for consumption goods and (c) Bill of Entry for re-export. If the goods are not dutiable the word 'free' is marked on the 'entry'. In the case of dutiable articles the bill is passed to the 'Appraiser of Customs' for assessing the import duty.

(12) Bill of Sight—It is a document submitted by the importer in case he cannot supply detailed information in respect of the goods imported by him. He states in this document whatever information he has secured from the exporter and declares his inability to supply any further. The customs authority then allows him to inspect the goods and fill in the bill of entry.

(13) Mate's Receipt—When the goods are placed on board the vessels for exporting to other country, the packages are carefully examined and the Master of the ship issues a receipt known as **Mate's Receipt**. When the packets are in order the master issue a 'clean receipt' and in the case of defective packets he furnishes a 'foul receipt'. It is a temporary or kutcha receipt on production of which a final receipt, that is, bill of lading is issued by the shipping company.

(14) Rummaging—It means detailed investigation or thorough search of the ship to find out whether any unauthorised goods are imported by the trader. If the authority is satisfied, it releases the goods.

(15) Letter of Credit—It is somewhat difficult for an unknown importer to buy goods from the foreign seller without paying for the goods in advance. In case he is not in a position to pay for the import in advance he can arrange with a bank to issue a 'letter of credit' in favour of the exporter. **'Letter of Credit' is a letter which consists of an undertaking by a banker in the importing country to honour all bills drawn on him by the exporter in accordance with the terms of credit.**

It may be (1) a **'confirmed' credit** in which case the banker gives an undertaking and (2) **unconfirmed or open credit** for which the banker does not give any undertaking but simply agrees to honour the drafts. There are also various other varieties of credit. The **Documentary credit** must be accompanied with all shipping documents while an **Acceptance Credit** includes an undertaking by the issuing banker to accept bills on behalf of the importer.

When a credit is available for a number of transactions and is automatically renewed from time to time, it is known as **Revolving Credit.** In the case of **Negotiating Credit** the issuing banker requests its agent in the exporter's country to negotiate bills upto a certain amount during a specified period. But in the case of **Marginal credit** the bills are to be drawn in accordance with the terms and conditions given on the margin of the letter of credit.

(16) Trust Receipt—It is a receipt signed and issued by an importer acknowledging the receipt of the shipping documents lodged with a banker for taking loans. By this receipt an importer may also undertake to keep the goods imported away from other goods or to utilise the sale proceeds mainly for meeting the loans taken against the shipping documents provided as securities.

(17) Charter Party—It is a document containing an agreement between the shipper and the shipowner by which the shipper hires the whole or part of the ship for the shipment of his goods. In a charter party the shipowner undertakes the responsibility about seaworthy condition of the ship and the shipper undertakes to provide with a specified quantity of cargo for which he agrees also to pay for the requisite freight.

It may be a **Voyage Charter** which refers to an agreement for hiring a ship or a part of it for a particular voyage or several voyages. The **Time Charter** is a type of charter party by which the shipper hires the ship or a part of it for a particular period of time. In the case of a **Mixed Charter,** a shipper hires the ship or a part of it for a particular voyage and for a specified period of time.

It contains certain clauses, namely, (a) Names of the parties, (b) Description of the cargoes, (c) Type of charter party, (d) Seaworthy condition of the ship, (e) Freight, Demurrage, lay days, (f) Excepted Perils etc.

(18) Demurrage—Generally, a shipper is allowed certain days extra known as lay days for loading or unloading of cargoes. If the ship is detained more than the lay days, the hirer is required to pay the fine called **Demurrage.**

(19) Letter of Hypothecation—This is a document which confers a lien or right over the goods to a banker or a person who provides an advance or loan. Against the discounting of the documentary bills a banker may claim a letter of hypothecation from an exporter to protect himself from any loss which may arise on account of dishonour of such bills by the importer. An importer is also required to issue this letter to a banker giving a lien over the imported goods in case he takes any advance from his banker.

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(20) Shipping Order—After the necessary agreement between the shiper and shipowner for the shipment of goods, the shipping company issues an order known as **Shipping order** directing the captain of the ship to receive the goods on board the vessel. On receiving such an order the captain permits the loading of cargoes.

Questions

Essay Type

1. What is Foreign Trade ? Discuss its basis, merits and demerits.
[Ans. Meaning, Basis and Importance—Advantages and Disadvantages]
2. Why is Foreign Trade controlled ? What organizations have been established for controlling foreign trade ?
[Ans. Control of Foreign Trade—Control organization]
3. What procedure is adopted for exporting any commodity from India to other countries ?
[Ans. Export Procedure]
4. What procedure is adopted for importing any commodity to India from a foreign country ?
[Ans. Import procedure]
5. What customs formalities are required to be observed for importing any commodity to India ?
[Ans. Import procedure—Customs Formalities only]
6. Describe the general procedure of either (a) import or (b) export of goods into or from India. [H. S. 1979]
7. Describe the customs formalities which are to be observed by an Indian Merchant for imported goods. [Specimen Question '80]
[Ans. Import Procedure—Customs Formalities only]
8. Write short notes on—
(a) Letter of Credit, (b) O.G.L. (c) State Trading Corporation, (d) D/P bill, (e) D/A bill, (f) Bonded warehouse, (g) Bill of Lading
[Specimen Question '80]

Short Answer Type

1. What different classes of exporters are found in India ?
[Ans. Classification of Exporters]
2. What different classes of importers are found in India ?
[Ans. Classification of importers]

3. (a) Describe three fundamental differences between home trade and foreign trade with examples.

(b) Mention two principal aspects of Government control on import trade. [H. S. 1978]

[Ans. Distinction between Home Trade and Foreign Trade—control of Foreign Trade]

4. Discuss the features of Indent Business.

[Ans. Indent Business]

Objective Type

1. What is Letter of Credit ? Why is it used in foreign trade ?
2. What is Charter Party ? Why is it used in foreign trade ?
3. Name four important documents used in foreign trade.
4. Explain the significance of the following quotations—
(a) C.I.F. (b) C.I.F.E. (c) F.O.B. (d) F.A.S. (e) F.O.R. (f) In Bond.
5. **Answer in one word—**

(a) What is the basis of foreign trade ?

(b) Who appraises customs duties ?

(c) For assurance of payment which document exporter demands from the importer ?

(d) Name the receipt given by the captain of the ship.

(e) For the acceptance of which bill the importer gets all the relevant documents ?

(f) Which documents are placed before the customs authorities for getting concessions in customs duties ?

(g) Which document is issued by the Shipping Company for acknowledging the receipt of the goods and undertaking to carry the goods to the destination ?

(h) Which class of exporter procures the goods from the producers and exports them ?

CHAPTER II

COMMERCE

Infra-structure for Industry and Trade

We have discussed earlier that business activities are classified as Industry and Commerce. Industry produces goods. And the manufactured goods are to be distributed among the consumers. The exchange aspect of business is called Commerce. Exchange is effected by means of trade and certain ancillary or auxilliary functions to trade. Industrial enterprises purchase raw materials, machinery, power, fuel etc. for production of commodities. Again manufactured goods are to be sold in the market. Buying and selling of goods and services refer to trade. Trader buys from primary producers raw materials, fuel etc. and sells them to the industrial enterprises. Again he buys manufactured goods from the industrial enterprises and sells them to the consumers. He is to perform certain ancillary functions for buying and selling. These are,—transporting, banking, insuring, warehousing, advertising, packing etc. All these functions help production and distribution of goods and services. Without these ancillary functions production and distribution of things are not practicable. So it is now clear that commercial activities are the infra-structure of production and distribution of goods.

For buying and selling, goods are to be transported from one place to another. In other words, goods can be delivered from the production centres to Industrial regions and then to the markets by means of transport. Business enterprises are required to collect and disseminate information. Communication helps them to exchange business information. By means of correspondence business information is exchanged. Capital is necessary for production, buying and selling. Banks supply capital to the business enterprises for production, buying and selling of commodities. Banks also help in remitting money to distant places. Particularly, their remittance service is very helpful in the case of foreign trade. Agricultural products cannot be produced throughout the year. They are cultivated in certain seasons. For example, rice, wheat, jute etc. But these are demanded all over the year. Warehousing facilitates distribution of these commodities throughout the year though these are produced in a particular season. Again certain things are demanded in a particular season. For exam-

ple, woollen garment. These are made and warehoused in other seasons so that they can be supplied to the market during winter. Various risks are associated with the production and distribution of goods. Commodities may be gutted or they may be lost or damaged in transit. All these risks are covered by insurance. Moreover, customers must also be informed about the particulars of goods. Businessman informs the customers about the details of commodities by means of advertisement. Customers may know details of goods as to where they are being produced, where they are available, their utility, prices etc. through advertisement. At present, advertisement has become indispensable otherwise mass selling can not be done. Besides, market for the product has now been extended. Goods are now supplied to the distant markets. So they are to be packed adequately otherwise they may be damaged in transit. Therefore, packing is necessary for delivering goods to the far-off places.

Therefore, it reveals that commerce plays an important role in the production and distribution of merchandise.

BANKING BUSINESS

Services of Banks for the development of Trade, Industry and Commerce.

Bank is a business enterprise. Its main function is to accept deposits from the public and provide loans and advances to the business enterprises. They are dealers in credit. They also create credit. If a person wants loan from a bank, it opens an account in the name of the person for paying him the amount of loan. In this way bank creates credit.

Bank plays an important part for the development of trade, commerce and industry. Banks supply necessary capital to the enterprises for effecting production and business transactions. They help business enterprises to secure capital by providing them loans and advances. But Banks always provide short term loans. They cannot block their deposits by providing long term loans as they have to pay back the amount of deposits to the depositors on their demand. That is why, businessmen secure working capital from banks. At present, banking business has been developed. Payments in the business enterprises are made more and more by cheques and banking habit of the people has also been increased. Hence, banks find no difficulty in supplying large amount of capital to the enterprises. Banks are also now giving long term loans and advances to the industrial and commercial enterprises.

Role of banks in the development of trade, commerce and industry is enumerated as follows—

(1) **Banks create credit and provide facilities to the business enterprises in securing loans from them.** Hence, enterprises can get borrowed capital from banks.

(2) **Banks provide short term loans to trade, industry and commerce.** Whenever the enterprises require loans, they get these loans from banks. Short term loans are repayable within a period ranging from three months to two years.

(3) **They help to maintain the flow of production by supplying short term loans to the industrial enterprises.** Enterprises are required to buy raw materials, small machine tools etc., pay for wages to the workers and meet various other expenditures for the purpose of production. For all these expenses industrial enterprises secure short term loans from banks. Later they sell out the products and with the help of money they get they pay back the loan. In this way banks help the enterprises to produce their products.

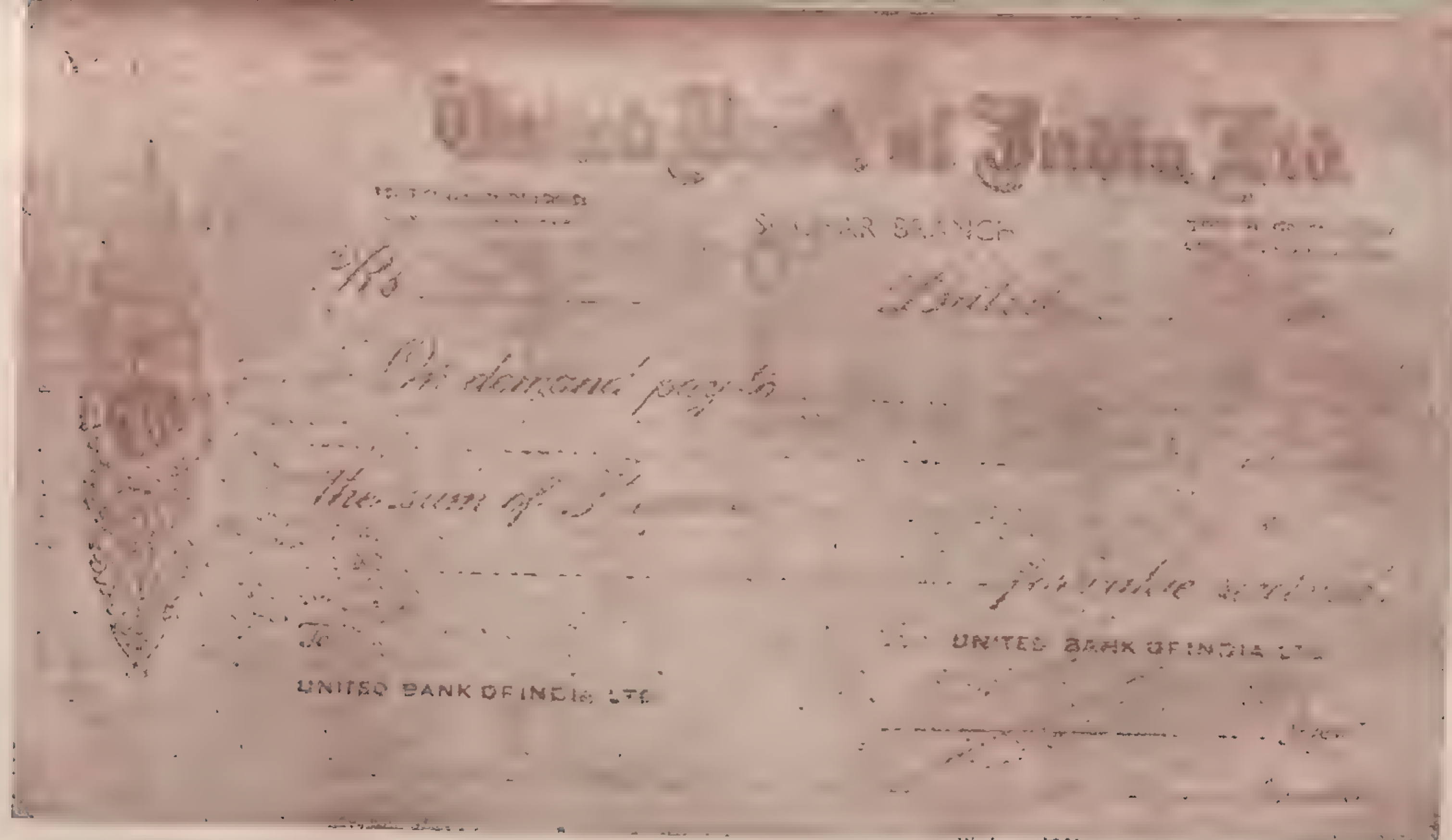
(4) **Banks also provide long term loans and advances to the business enterprises.** As the banking business has been developed, remittance by cheque is being effected increasingly and above all banking habit of the people has been increased, banks find no difficulty in giving long term loans. Besides, for fostering self employment, banks are now giving long term loans to the unemployed youngmen for buying bus, minibus, taxi etc.

(5) **Banks very often underwrite shares and debentures of the Companies.** It means that banks provide guarantee to the companies that they will sell certain number of shares and debentures to the public. In case they are not in a position to sell the guaranteed number, banks themselves purchase those shares and debentures. In this way, banks provide long term loans.

(6) **It facilitates effecting of business transactions smoothly.** If business enterprises make payment always by cheque, they do not require to handle cash. This increases safety in the matter of making payment. Particularly, the payer and payee can transact safely when payment is made by crossed cheque. This not only facilitates effecting of transactions smoothly but at the sametime increases the deposits of the banks. For the people deposit money to banks for getting advantage of making payment by cheque.

(7) **Government also takes loans and advances from banks for investment in important and essential projects.** Banks purchase large amount of government securities sold by the government. In this way it can get the necessary finance for investment in different important projects. Besides, banks also help buying and selling of government securities.

Specimen of a Crossed Cheque



Specimen of a Bank Draft

(8) Banks also supply capital to government undertakings. They purchase shares and debentures of government undertakings.

(9) Banks help capital formation in the country by providing opportunities to the public for investment of their savings. Individual savings which are deposited in the banks are invested in trade, industry and commerce.

(10) **Bank has unique role in export and import business.** It issues letter of credit to the exporter on behalf of the importer. It very often gives loans and advances to the importers for importing goods from abroad. It also helps exporter for getting payment immediately by means of discounting of bills.

(11) Bank facilitates payment of price in foreign trade by buying and selling of foreign currencies. So the importers can procure foreign currency for payment for their imports. Exporters can also get home currency by depositing with the bank foreign currency of equal value.

(12) Sellers can collect their sale proceeds easily through banks. They can discount the bills drawn on purchasers with the banks and in this way they can realise their sale proceeds immediately.

Other services of Banks to Business

Banks render various other services to the business enterprises and ordinary depositors against insignificant remuneration. These services are as follows—

(1) Banks undertake to realise amount from debtors on behalf of business enterprises and other depositors. Cheques and bankdrafts which are deposited, banks collect the amount of those cheques and drafts from the paying bankers and deposit the same in the respective accounts of the depositors. In this way, banks realise the amount due from the debtors of the depositors.

(2) Banks provide facilities for remitting money to distant places. The enterprises can easily send money to the suppliers of distant places by bank draft. They can realise their dues from the purchasers of far off places by means of bank draft.

(3) Banks buy and sell shares, bonds and government securities on behalf of the businessmen and investors. If there is instruction on the banker, it buys and sells securities on behalf of the depositors.

(4) Banks also collect dividend, interest, house rent, commission etc., on behalf of the business enterprises. On instruction from the enterprises banks collect dividend, interest, commission etc. and deposit them in the accounts of the depositors.

(5) On the other hand, banks arrange for payment to creditors, insurance premium, house rent, commission to agents etc. on behalf

of the business enterprises. On specific instruction banks render those services. Besides, banks also arrange for payment of income tax payable by the enterprises and other depositors.

(6) **Banks also keep important documents and valuable articles of the depositors in safe custody.** Now there is safe-deposit vault in almost every bank. Important documents, gold, gold ornaments etc. are kept by the banks in the safe deposit vault.

(7) **Banks issue Travellers cheque to facilitate itinerary of ordinary travellers, Businessmen, and sales representatives etc.** They help safe travelling of businessmen and sales representatives by issuing travellers cheques to them.

(8) **Bankers help sellers by providing them with the information about the financial position of the purchasers.** Sellers collect necessary information from the banks in respect of financial capacity of the purchases before selling them goods on credit.

(9) **Very often banks give advice to the businessmen about business transactions.** By providing varied business information banks adviso businessmen for solving various business problems and for expansion of the business.

(10) **Finally, banks collect various information in respect of the trading and economic conditions of the country and disseminate the same among the business enterprises.**

Bank Transactions

Every person saves certain amount. He deposits his saving in a bank for keeping it safely. He can, of course, get back this amount from the bank on demand. Those who deposit their savings in a bank are known as depositors. So the important function of the bank is to keep in deposit the savings of the depositors. On the other hand, bank does not keep the depositors' money in the iron safe. It invests these deposits in various ways. It invests the deposits by providing loans and advances to the businessmen and industrialists and to the government by purchasing government securities. Bank pays interest on deposits and takes interest on loans and advances. But it charges higher rate of interest on loans than what it pays on deposits. In this way, it makes profit. This is in a nutshell the banking business. For doing this business bank effects certain transactions, These are as follows—

(1) **Bank accepts deposits from the public.** There are four types of deposit accounts. namely, current deposit account, savings deposit account, fixed deposit account and recurring deposit account.

A minimum sum of Rs. 500 is deposited for opening **Current Account.** No restriction is imposed on depositing in and withdrawing money from current account. But a certain minimum amount is always to be kept in deposit in a current account. Any amount can be withdrawn from this account. This type of account is very useful for business transaction.

Savings Deposit Account can be opened by depositing a minimum sum of Rs. 5. Withdrawal from this account is restricted. Any amount cannot be withdrawn at any time from this account. Persons having lower income can open this account as a very small amount is required for opening this account.

Larger amount is deposited for a fixed period in the **Fixed Deposit Account.** The fixed period ranges from six months to more than five years. Keeping money in a fixed deposit account signifies a type of investment.

Fixed amount is deposited monthly in a **Recurring Deposit Account.** This fixed amount may be Rs. 5, Rs. 10, Rs. 20, Rs. 25, Rs. 50, Rs. 100 or more. This amount is deposited monthly for a fixed period, namely, 48, 60 or 80 months. At maturity, that is, at the end of the fixed period the entire amount along with interest is paid back.

(2) Bank provides short term loans and advances to industrial and commercial enterprises. Normally, bank gives four types of short term loans, namely, **overdraft, cashcredit, loan and advance, and discounting of bills.**

A depositor is to make arrangement with the bank for taking loan on **overdraft.** Under this arrangement bank allows the depositor to withdraw more money than what has been deposited in his account. Bank charges interest on overdraft.

Under **cash credit** system bank allows the depositor to withdraw a fixed sum. Interest is not charged on the entire amount granted by bank as cashcredit loan to the depositor. Interest is charged by the bank on the amount withdrawn by the depositor.

But interest is charged on the entire amount granted by the bank as **loan and advance.** Under this arrangement loan money is deposited in the depositor's current account. Then the depositor is allowed to withdraw amount from the current account.

Bank also provides loans to the depositors by **discounting their bills.** When goods are bought and sold on credit, seller draws a bill on purchaser who accepts it and returns it to the seller. The seller can get the amount of the bill if he discounts the bill with his bank.

Of course, bank charges discount. It means a certain amount is deducted from the amount of the bill and then the balance amount is paid to the depositor. At maturity bank collects the amount from the acceptor.

(3) **Bank charges interest for loans and advances but at the sametime pays interest on deposits.** Interest is not paid on current deposit. But a fixed rate of interest is paid on savings and fixed deposits.

(4) **Bank effects certain transactions for remitting money from one place to another as per instruction from the depositors.** It remits depositor's money to distant places by means of demand draft, mail transfer, telegraphic transfer etc. If a depositor wants to send money by demand draft, he has to buy it from the bank. Bank also sends information to the paying banker through post office to pay the amount to any payee. In the case of mail transfer, letter or advice is sent to the paying banker and in the case of telegraphic transfer a telegram is sent to the paying banker instructing it to pay the amount to the payee.

(5) **When local or outside chepue or bill of exchange is deposited, bank collects the amount of the cheque or bill of exchange and deposit it in the depositor's account.** Bank is required to clear the cheque in order to collect the amount of the cheque. After clearing the cheque in the clearing house conducted by the Reserve Bank, the collecting bank deposits the amount in the account of the depositor.

Different Types of Bank

At present, different types of bank are found in different countries of the world. Their functions and particulars are stated below—

(1) **Central Bank**—The Central Bank controls the banking system of a country. It supplies the currency and controls bank credit. It acts as a banker of banks. It controls the activities of banks, gives advice and guides them in their banking business. The Central Bank also acts as a banker of the Government and advises the Government in respect of currency supply and credit control. It controls also foreign trade and maintains the external value of the currency. Central Bank has different names in different countries of the world. In India it is called Reserved Bank of India, in England it is Bank of England and in Soviet Russia it is known as Goss Bank.

(2) **Savings Bank**—Savings banks are conducted by the post offices in India. Post offices accept deposit at a low rate of interest

from the public. Post Offices now collect also fixed deposits for different terms. It is called Cumulative Time Deposit. But post offices do not invest in trade, industry and commerce. Commercial Banks in India also conduct Savings Bank by accepting deposits at a low rate of interest from the public. Commercial Banks utilise the savings bank deposits in providing loans and advances to trade, industry and commerce.

(3) **Exchange Bank**—Exchange bank operates as a Commercial Bank. It accepts deposits from the public and provides loans and advances to business enterprises. But the main function of this bank is to arrange for exchange of currency. It advances money for export and import business. Generally these banks are foreign banks and engaged in export and import trade as representatives of foreign exporters and importers. They accept foreign bills and issue letter of credit. These banks are found in India, namely, National and Grindlays Bank, Hongkong and Sanghai Banking Corporation etc.

(4) **Industrial Bank**—It accepts deposits from the public but it encourages the depositors to keep with it long term deposits. Instead of short term loans it provides long term loans and advances to the business enterprises. It also underwrites shares and debentures of newly established companies. It gives long term loans against the security of shares and debentures. Though it buys shares and debentures of companies, it does not control their activities. This type of bank is found in the U.S.A., West Germany, Japan etc. In India this bank is rarely found.

(5) **Co-operative Bank**—Normally, this bank gives loans to the farmers against the security of land, crops and other things. It accepts deposits of smaller amount from the public and provides loans for the development of agriculture. It also gives loan to the poor village artisans and cottage enterprises. Many co-operative banks have been established in India. At present, in India there are 25 state co-operative banks, 340 central co-operative banks, 19 land development banks and about 1,61,000 primary agricultural co-operatives. In cities and towns people having low income establish co-operative credit society. The credit society accepts deposits from the members for providing loans to them.

(6) **Land Mortgage Bank**—It provides loan against the mortgage of land. This type of bank is seldom found in India. Generally in India co-operative bank gives loans against the security of land. It gives loans to the farmers.

(7) **Rural Bank**—These banks will be established in India with

the object of accepting deposits from the poor people of the rural areas and giving loans to the poor farmers, village artisans and cottage and small enterprises. It is expected that the Reserve Bank, State Bank and Nationalised banks will help these Rural Banks. Elimination of money lenders is the primary objective of this bank.

(8) **Commercial Bank**—Commercial Banks are found in every country. They accept deposits from the public and give loans and advances to the business enterprises. It is established in India as a joint stock bank with a limited liability. It can be set up with a minimum capital of Rs. five lakh. It does banking business under the control of the Reserve Bank of India.

It accepts four types of deposit, namely, Current Deposit, Savings Deposit, Fixed Deposit and Recurring Deposit. It provides loans in various ways, namely, direct loans, cash credit, overdraft, discounting of bills etc. Besides these, it performs various other functions. It keeps in safe custody valuables of the depositors, buys and sells shares and debentures on behalf of them, pays insurance premium, dues to the creditors and collects dividend, interest etc. on behalf of the depositors and deposit them in the accounts of the depositors.

After the nationalisation of twenty big banks there are now two types of commercial banks in India, namely, Public Sector Bank and **Private Sector Bank.**

(9) **Scheduled Bank**—Banks which have been included in the two schedules of the Reserve Bank of India Act are called Scheduled Bank. Reserve Bank of India Act has provided for two schedules, namely, schedule 'A' and schedule 'B'. According to the size and capital investment some banks have been included in the schedule 'A' and some others in the schedule 'B'. At present, banks which are established with a minimum capital and reserve fund of Rs. 5 lakh are included in the schedule of Reserve Bank. Of course, Reserve Bank controls the activities of all banks, both scheduled and non-scheduled. At present, all commercial banks are scheduled banks. Money lenders and investment companies are required to take licence from the Reserve Bank though they are non-scheduled.

Functions of Commercial Bank

Commercial banks render immense services for the development of trade, Industry and commerce. Their services are enumerated below—

(1) **Commercial Banks accept deposits from the public.** They accept four types of deposits, namely, current, savings, fixed and recurring deposits. People having low income are encouraged to save for

they know that they can keep their savings in the savings account. They can earn interest by opening fixed deposit account. At present, so high rate of interest is paid on fixed deposit that it can now be taken as an investment. It is very unsafe to keep savings in the dwelling house. On the other hand, if the savings are deposited in a bank, they can not only be kept safely but at the same time the savings can earn income.

(2) **Businessmen find current deposit account very suitable to them.** For business transactions can be effected conveniently. Since payments can be made easily and safely by cheque, it is not necessary to handle cash.

(3) Banks do not keep in the iron safe the deposits which they collect from the depositors. **They give short and long term loans and advances to businessmen and industrialists.** And in this way, they help the traders to secure capital. So banks help the economic development of the country by investing savings of the country as capital in trade, commerce and industry.

(4) **Nowadays Commercial Banks are providing loans and advances to unemployed youngmen for fostering self-employment.** These banks are giving loans to the unemployed for helping them to buy bus, mini bus, taxi and even cycle ricksaws. In this way, youngmen can employ themselves by buying these vehicles. So banks are helping immensely to mitigate unemployment problem.

(5) **Banks facilitate remittance of money from one place to another.** Money can now be remitted easily and at least cost by means of bank draft.

(6) **Banks provide facilities for payment by the debtor to the creditor by cheque.** Handling of cash is not necessary when payment is made by cheque and at the same time this can be provided as an evidence that the debtor has made payment to the creditor. If there is specific instruction, bank can undertake to pay creditor on behalf of the debtor.

(7) On instruction from the depositors **banks also undertake to pay for house rent, insurance premium, taxes etc.** on behalf of the depositors.

(8) On the other hand. **banks collect interest, dividend, commission etc.** on standing order from the depositors and deposit them in their accounts. Moreover, they collect also dues from their debtors.

(9) **Banks help sellers by providing them with information about buyers.** Before selling goods on credit to a buyer the seller can get information from the bank about the financial position of the buyer, that is, whether it would be safe to sell goods on credit to him, if so, what quantity can be sold to him on credit etc.

(10) **Commercial banks particularly exchange banks help a lot in making payment for foreign trade.** They issue letters of credit to the exporters for the importers. Moreover, they arrange for exchange of currencies. They provide foreign currency for paying for imports and arrange for conversion of foreign currency into home currency in the case of export.

(11) It is not safe and convenient for the travellers to handle cash money while travelling in distant places. **Banks have made travelling safe and comfortable by issuing travellers cheque.** This cheque can be cashed quite easily.

(12) At present, **every commercial bank keeps safe deposit vault.** Depositors can, therefore, keep their valuables in safe custody. Banks keep their valuable things in the vaults.

(13) Besides these, banks also render certain other services. **Banks buy and sell shares and debentures** on behalf of the depositors, **pay their examination fees, income tax etc., create credit** and give **advice in respect of business and finance.**

Different Types of Deposit Account

Account is to be opened for keeping deposit in a bank. In other words, bank opens account for every depositor. There are four types of deposit account, namely, current deposit account, savings deposit account, fixed deposit account and recurring deposit account. These are discussed below—

(1) **Current Deposit Account :** This account is opened by depositing a certain amount. No restriction is imposed on withdrawal and deposit of money in this account. But a certain minimum amount is always kept in deposit in this account. Any amount can be withdrawn from this account and any amount can be deposited in it. Amount is withdrawn always by cheque. **This type of account is very suitable for business transaction.** Since payments can be made by cheque and amount can be received in cheque, businessman does not require to handle cash. But a very low rate of interest is paid on the deposit of this account. In certain banks no interest is paid in current account. After a week, fortnight or a month bank sends statements of current accounts to their depositors.

(2) **Savings Deposit Account :** Savings account is opened by depositing a certain sum of money. Since only a small amount is required for opening this type of account, people having low income can easily open this account. In certain banks savings account can be opened by depositing a sum of Rs. 5 only. Restriction is imposed on the operation of this account. Any amount cannot be withdrawn

at any time. Five withdrawals can be made in a month and Rs. 1000 can be withdrawn at a time. If a depositor wants to withdraw a sum more than Rs. 1000, he must give a notice to the bank intimating at which date he will withdraw the amount. In some banks a depositor is allowed to withdraw more than Rs. 1000 if he himself withdraws the amount. Interest is paid on this deposit account. At present, in nationalised banks 5% interest is paid on savings deposit account. Depositor is given a pass book. Details of withdrawals and deposits are recorded in the pass book. Whenever money is withdrawn from the savings account, pass book is to be produced. In some banks withdrawal can be made by cheque. In that case if a pass book is not given a bank statement is sent to the depositor every fortnight or month.

(3) **Fixed Deposit Account:** Normally a larger amount is deposited in this account for a fixed period. Amount may be deposited for a period ranging from six months to more than five years. Different rates of interest are paid for different periods of deposit. At present 10% interest is allowed for a deposit of more than five years. Whatever may be the period of deposit above five years the same rate of interest is paid. Money cannot be withdrawn from a fixed deposit account. But if a depositor gives a proper notice to the bank, he is allowed to encash fixed deposit before maturity, that is, before the expiry of the fixed period. In that case the rate of interest is reduced. At present, depositor can take loan from this account. But the bank charges higher rate of interest on such a loan than what it pays on deposit. For opening a fixed deposit account the bank issues a fixed deposit certificate. Generally deposit in a fixed deposit account is regarded as an investment. Interest is paid at the end of every six month on this account.

At present, long term fixed deposit account is opened. Under this arrangement deposit may be kept for a period ranging from ten to thirtyfive years. Six monthly interest is not paid. But the depositor gets back the principal along with the compound interest accrued so far at maturity.

(3) **Recurring Deposit Account:** This is also a type of fixed deposit account. This account is opened by depositing Rs. 10. Rs. 25. Rs. 50. Rs. 100 or more. The same amount is deposited every month with which the account is opened. That is, if the account is opened by depositing Rs. 10, every month a sum of Rs. 10, is to be deposited.

This recurring deposit may be continued for a period ranging from twelve months to eighty months. Money cannot be withdrawn from this account. Every year bank pays interest on this deposit account. Bank issues a pass book for opening this recurring deposit account. It records the monthly deposit in this pass book. After the expiry of the fixed period bank pays back the amount along with interest to the depositor. The advantage of opening of this type of account is that the depositor can save a fixed sum every month. This encourages the savings habit. Trader can also use this account advantageously. He can save every month in this account for the purpose of replacement of any fixed asset in future. The trader can utilise the money which he gets back at the end of the fixed period for purchasing a new machine for replacement of the old one.

Distinction between Current Deposit Account and Fixed Deposit Account

The following are the points of distinction—

(1) In the current deposit account money is not deposited for a fixed period but in a fixed deposit account amount is deposited for a fixed period.

(2) A certain minimum amount is always kept as deposit in the current account whereas, the entire amount is kept as deposit in the fixed deposit account for the entire fixed period.

(3) Money can be withdrawn at any time from current account but the withdrawal is not allowed in the case of fixed deposit account.

(4) Withdrawal from the current account is made by cheque but money cannot be withdrawn from the fixed deposit account by cheque.

(5) Low rate of interest is paid on current account. In certain cases interest is not paid at all in current account. But a higher rate of interest is paid on fixed deposit. Rate of interest varies according to the tenure of fixed deposit.

(6) Current account is suitable for effecting business transactions. But fixed deposit account is convenient for earning income by investment.

(7) As the money can be withdrawn and deposited in the current account, bank issues a statement every fortnight or a month to the depositor stating therein the details of withdrawals and deposits. But the bank issues a fixed deposit certificate in the case of fixed deposit account.

Distinction between Current Deposit Account and Savings Deposit Account.

The following are the points of distinction—

(1) In the current account a particular amount is always kept as deposit. In the savings account only a small amount is always kept as deposit.

(2) No restriction is imposed on withdrawal from the current account. Any amount can be withdrawn at any time from the current account. But withdrawal from the savings account is restricted. Withdrawal can be made for five times a month and a single withdrawal should not exceed Rs. 1000.

(3) Low rate of interest is paid on current account. In certain banks interest is not paid at all. Low rate of interest is also paid by bank on savings deposit but it is higher than that paid on current deposit.

(4) Money is withdrawn by cheque from the current account. But money is withdrawn by means of withdrawal form or by cheque from the savings account.

(5) In the case of current account bank statement in respect of the account is issued to the depositor. But in the case of savings account pass book is given to the depositor.

(6) Current account is suitable for effecting business transactions. But a savings account is convenient for the people having very poor income for saving money.

Distinction between Savings Account and Fixed Deposit Account

The following are the differences—

(1) A savings account can be opened by depositing a small amount. But a larger amount is required to be deposited for opening a fixed deposit account.

(2) In the case of fixed deposit account a fixed amount is deposited for a fixed period. But in the savings account money is not deposited for a fixed period.

(3) Low rate of interest is paid on savings deposit but higher rate of interest is paid on fixed deposit.

(4) Though restriction is imposed on withdrawal from savings account, money can be withdrawn from savings account. But withdrawal cannot be made from fixed deposit account before the expiry of the fixed period.

(5) Savings account is suitable for those poor men who like to

save. Fixed deposit account is convenient for those who like to earn income by investing their savings.

(6) In the case of savings account pass book is issued to the depositor. But in the case of fixed deposit account fixed deposit certificate is issued to the depositor.

(7) A very small amount is always kept as deposit in the savings account but the entire amount is kept as deposit in the fixed deposit account for the entire fixed period.

Public Sector Banks

At present, in India there are two types of banks,, namely, Private Sector Bank and Public Sector bank. A public sector bank is a bank which is owned and managed by the state. But Private Sector banks are owned and administered by individuals and companies.

The following are the Public Sector banks—

Reserve Bank of India : It is the Central Bank of India. It controls the banking activities in the country. It issues notes and coins and controls the bank credit according to the economic conditions of the country. It acts as a banker of banks and of the government Commercial banks secure necessary fund from the Recerve Bank by selling securities and rediscounting of bills for giving loans to the public. It determines the external value (rupee value for foreign trade) of the country's currency and maintains it. This bank also controls foreign trade by restricting imports and exports. It also gives advice to the Central and State Governments in respect of currency and finance.

State Bank of India : The State Bank of India was set up in 1955 by the nationalisation of Imperial Bank in line with the recommendation of the Rural Credit Survey Committee. It's authorised capital is Rupees twenty crore and paid up capital is Rupees five crore. It acts as a commercial bank. It accepts deposits from the public and provides loans and advances to the businessmen and industrialists. It renders banking services to all areas in the country particularly to the rural areas. Its primary objective was to open 400 branches all over the country. Of course, it has already opened more than 400 branches in different regions of the country. Its other objective is to eliminate money lenders and to provide loans to the farmers at a low rate of interest. It gives loans to the co-operative banks and provides warehousing facilities. It also provides opportunities for the construction of warehouses in India. It acts as an agent of the Reserve Bank in the area where there is no branch of the Reserve Bank. This bank now provides loans and advances for foreign trade. It gives acceptances on foreign bills and issues letter of credit.

Nationalization of Commercial Banks

On 18th July 1969 the Central Government of India declared that the fourteen big commercial banks of India would be nationalised. On 9th August 1969 these banks were nationalised. After notionalisation of these fourteen banks, the number of public sector banks has now come to twenty nine, namely, Reserve Bank, State Bank along with its seven subsidiary banks and those fourteen big commercial banks. Again, in 1980 six more commercial banks were nationalised. At the time of nationalisation of these banks in 1969 the total deposit of these banks was Rs. 2740 crore. It accounted for 70% of the total deposit of the scheduled banks in India. At that time these banks provided loans to the extent of Rs. 1685 crore and their capital was Rs. 65 crore.

Before nationalisation these commercial banks did not like to provide loans to the farmers and small enterprises. They neglected these two sectors, that is, agriculture and small industries. Farmers are perpetually indebted to the village money lenders. And 42% of the total production of the country comes from small scale industrial sector. Even then these small enterprises could not get any opportunity of taking loans and advances from these commercial banks. Secondly, these banks used to patronise the big and reputed business firms. They provided loans to these big firms on favourable terms and conditions. This encouraged the growth of monopoly business in India. Moreover, Government of India wanted that the commercial banks should follow the investment policy announced by it for the implementation of five year plans. But the commercial banks for their own interest and also for vested interest changed their credit policy and discriminated between the customers. They even thwarted the credit control policy of the Reserve Bank for realising their own interest. For all these reasons the Central Government tried to bring them under social control. But the Government could not satisfy the aspirations of the Indian people by social control of banks. Later, these banks were nationalised. Nationalisation of big commercial banks is no doubt a big step towards introducing a socialistic pattern of society in India.

At present, the nationalised banks are successfully realising their own objectives. In 1972-73 their deposits were of Rs. 7575 crore. At that time they provided loans to the tune of Rs. 5340 crore. Particularly loans to small enterprises have been increased to a great extent. At that time the nationalised banks gave loans of Rs. 900 crore to small enterprises. Loans to the agriculture sector were Rs. 170 crore.

Though these banks have not been state owned for making profit. profits in these banks have been increasing rapidly. Moreover, they are providing more and more loans to the so called neglected sectors, namely, village and urban artisans, retail dealers, rickshaw pullers, taxiowners, busowners, truckowners etc. These banks are also setting up branches in rural and urban areas for the purpose of providing loans and advances to these neglected sectors.

Purposes and Functions of Nationalized Banks

At present, there are two types of banks in our country, namely. Public Sector banks and Private Sector banks. The purposes and functions of public sector banks are enumerated below—

(1) It is expected that these banks will play an important role in developing and rejuvenating the economy of the country. They will, no doubt, follow a specific credit policy in the different sectors of the society.

(2) Banks have been nationalized for the purpose of achieving certain national and social objectives. So their aim is to realise those national and social objectives instead of making profits only.

(3) Though these banks have not been nationalized for making profit, profits in these banks have been increasing. These profits will be utilised for providing more and more banking services.

(4) They would not patronise big and reputed firms and discriminate between the customers in the matter of giving loans and advances.

(5) One of the important objectives of these banks is to provide financial assistance to the neglected small scale industrial sector.

(6) For the purpose of fostering self-employment these banks are now giving financial assistance to the rural and urban artisans, retail dealers, bus, minibus, taxi and truck and lorry owners etc. This would, no doubt, mitigate the unemployment problem in India.

(7) The objective of these banks is also to provide loans to the agriculture sector on favourable terms. It is expected that they would eliminate village money lenders in near future. For this purpose again the rural banks will be set up.

(8) Before nationalization the commercial banks neglected the export trade of the country. Now it is necessary that the commodities are to be exported more and more for earning foreign exchange. The nationalized banks will provide greater amount of loans and advances for financing export trade of the country.

(9) As a large number of big banks have been brought under state-ownership and control, disparities in income and wealth would be reduced.

(10) Finally, these banks are reflecting the investment policy announced by the Central Government in different plan periods for implementing the five year plans.

INSURANCE

Importance of Insurance in Modern Business

Insurance may be defined as the contract whereby one party known as insurer or underwriter undertakes to indemnify the other party, the insured, in consideration for a certain sum of money called premium, against any loss which may arise on the happening of a certain event.

Businessmen, in modern days, are now to face tremendous and manifold risks. The risks may arise on account of various reasons. After the production is completed or after acquiring the merchandise the trader may face an awkward situation in the market. While producing the commodities or preserving the manufactured products in the warehouses, the products or properties may be stolen or gutted. In case of transportation of the merchandise to distant places, the same may be destroyed. The death of the proprietors or partners may bring tremendous hardship to other survivors to continue the business. Some of all these risks are now covered by insurance. Risks on account of fire can be covered by fire insurance, risks arising in connection with sea transport can be mitigated by effecting marine insurance and the losses of lives can be compensated by means of life insurance.

It is the task of the insurance not to prevent losses but to compensate those who have sustained losses by arranging to pay a certain sum of money.

By collecting premiums from various persons and disbursing money among those who have actually suffered losses, it distributes the risks among various persons. In other words, the risks are distributed or scattered over a large number of persons. The risk undertaken by one person is borne by various other persons.

Another important service rendered by the insurance is the canalising of small savings for productive purposes. The premium money collected by the insurer is usually invested in trade, industry and commerce. The life Insurance Corporation and General Insurance Corporation are now important financial institutions providing term loans to

small, medium and large scale industries and also underwriting their shares and debentures. Besides providing long-term capital to various industries, they are helping on several other ways the economic development of the country. Firstly, they are giving facilities for profitable investment of small savings. Secondly, they help capital formation within the country by providing incentives to the small savers.

The various insurance corporations established in several countries in the world are now offering employment opportunities and thus helping the respective governments in solving the unemployment problem. The Life Insurance Corporation is, perhaps, the largest institutional employer employing a few thousand persons.

The Government has undertaken various social security measures. Of these Employees' State Insurance and Workmen's Compensation are very important. By these schemes the industrial workers have now been benefited, as they are getting timely help for meeting the hazards of life.

Moreover, the financial institutions all over the world, notably banks, are now in a position to cover the risks arising on account of bad debts, misfeasance or breach of trust.

Insurance is, therefore, rendering beneficial services both to the business and individual. It makes possible the smooth and continuous production of various commodities and distribution of those to several places of consumption.

Different types of Insurance

Generally there are three types of insurance, namely, life insurance, general insurance and other types of insurance.

Various risks are associated with modern living. Businessmen are also to take various risks in the production and distribution of commodities and in trade and commerce. Risks are increasing with the increasing complexities in modern living. Hence, various types of insurance have now been emerged for covering these various types of risks. These are as follows—

(1) **Life Insurance** : Life insurance denotes a contract whereby the insurer undertakes to pay, in consideration for premium, a certain sum of money to the legal heir or nominee of an insured on his death or to the insured after the lapse of certain period of time. It is not a contract of indemnity. Rather, it is a contract of assurance whereby the insurer undertakes to pay on death of the insured or at maturity.

(2) **General Insurance** : General insurance is a contract of insurance. Insurer and the insured enter into an agreement whereby the

former undertakes to indemnify the latter for the destruction of properties. **The contract of insurance whereby the insurer, in consideration for a premium, undertakes to indemnify the insured for any loss stated in the contract is known as General Insurance.** Therefore, general insurance is a contract of indemnity. Normally businessmen and business enterprises effect general insurance. Various risks are associated with business. Trader may sustain loss for these varied risks in business. That is why, businessman effects insurance to cover these risks. Whenever he incurs any loss, he loses his capital. But he can keep his capital intact in the business if he is indemnified for the loss by the insurer. General insurance cannot avoid or remove the risk or the loss. It undertakes only to indemnify the loss. The General insurance may be of various types, namely, fire insurance, Marine insurance, Third party insurance, Burglary insurance, Fidelity insurance etc.

Besides these, various other types of insurance are effected. These are effected for providing social security. These are Workmen's compensation insurance, Employees state insurance, Accident insurance etc.

Essential conditions or principles underlying different types of General insurance

Insurance is a type of contract. The insurer and the insured enter into an agreement whereby the insurer undertakes to make good the loss sustained by the insured. So whenever the insured claims for the indemnification of the loss, the insurer assures himself that the insured has fulfilled all the conditions of contract. The contract of insurance is based on the following conditions or principles—

(1) **Uberrimae Fidei or Utmost Good Faith** : All the essential conditions in respect of insurance are mentioned in the insurance policy. **It is the duty of the insured to disclose all material facts about the subject matter of insurance.** Therefore, the insurer must be sure that the insured has disclosed all facts about the risks undertaken by him. In otherwords, the insured has not concealed any material fact about the subject matter of insurance. If the insurer finds that the insured has concealed any material fact in respect of the risk undertaken by him, he can cancell the contract. In the case of fire insurance if the insured does not disclose all the facts about the properties covered by the contract, the insurer can cancell it.

(2) **Contract of Indemnity** : Excepting life insurance, all others, namely, fire insurance, marine insurance etc. are the contract of indemnity. If the insured incurs any loss for fire, accident or for any other

reasons, the insurer undertakes to indemnify it. For example, a trader has effected an insurance of Rs. 5000 to cover a stock of materials against fire. A part of stock has been damaged by fire for which the trader has incurred a loss of Rs. 3000. The insurance company will pay Rs. 3000 only and not Rs. 5000. That is, only the actual loss will be made good. Life insurance is not a contract of indemnity. The insurer pays the entire amount mentioned in the life insurance policy on the death of the insured or at maturity.

(3) **Insurable Interest** : There can be no insurance, if there is no insurable interest. **Insurable interest means monetary interest.** When the goods or properties are damaged, the insured sustains monetary loss, it is called insurable interest. The owner of the goods or properties has insurable interest in them. Therefore, the owner of the property can effect insurance. In the case of fire insurance or marine insurance the policy holder must posses an insurable interest. In the case of life insurance also the policyholder must have insurable interest. A person has insurable interest in his own life. If a father dies, his son suffers from monetary loss, if a husband dies, his wife sustains pecuniary loss. · In all these cases there is insurable interest.

When the insured makes his claim, he must prove that he possesses insurable interest. In the case of fire or marine insurance, the insurable interest must exist when the insured makes his claim for indemnification. In the case of life insurance the insurable interest must exist at the time of effecting insurance.

(4) **Insurable Risk** : Loss arises from risk. **These risks can be covered by insurance if these risks are insurable risks.** Risks arise on account of happening of some uncertain events, namely, fire, accident etc. The events which are not imaginery, which happen, usually, generate loss that can be measured in terms of money and which are uncertain are insurable risks. For example, fire is not imaginery. It happens usually, that is, properties and goods can usually be damaged or destroyed by fire, the loss arising out of fire can be measured monetarily, there is the uncertainty as to when the fire will break out and the fire may damage or destroy the property. Therefore, fire risk is insurable risk.

Insurance Policy and Claim

The document in which the terms and conditions of the contract of insurance are stated is known as Insurance Policy. It is signed by the officer of the insurance company and given to the policyholder or the insured. The insurer is under obligation to indemnify the insured

for the loss under such conditions which are stated in the insurance policy. Moreover, trader can use this policy in mortgaging the insured property for getting loans. The mortgagee finds no difficulty in giving loan for he can realise the amount of loan from the insurer in case the property is destroyed. The name and address of the insured, the particulars of properties, value of the properties, the conditions under which the insurer undertakes to indemnify the insured etc. are mentioned in the insurance policy. It is classified according to the conditions of insurance.

When the property is destroyed the insured claims indemnification from the insurer. The insured is required to give information or notice to the insurer after the destruction or at the time of destruction of the property. The insured must take all measures to save the goods or property from destruction. And the insurer must be given all opportunities to salvage the goods or property. That is why, the insured is to give a notice to the insurer at the time when the property is being destroyed for giving opportunity to him to salvage the goods. The insured makes claim and realises the amount for the property which cannot be salvaged and hence destroyed.

Fire Insurance

It is a contract of indemnity whereby one party in consideration for a premium undertakes to indemnify the other party for any loss caused by accidental fire.

There are two types of insurers who undertake fire insurance business, namely **Tariff and Non Tariff offices.** By forming a combination **Tariff offices** charge uniform rates of premiums for different types of fire risks. Tariff offices are usually organised as companies. On the other hand, **Non Tariff offices** are not bound by any agreement and they charge premiums for different fire risks according to the individual discretion.

Importance of Fire Insurance

Fire is necessary in every day life and responsible to a great extent for the advancement of human civilisation. It is necessary in several industries for smelting, moulding and shaping of ores and metals and conversion of chemicals.

But fire may cause destruction of lives and properties if it is not controlled carefully. For processing raw materials several industries use combustible substances ; for example, petrochemical industry uses highly inflammable products, jute industry utilises dried raw jute which

can catch fire at any time and various chemical firms deal with highly ignited products. Though various precautionery measures are taken, nowadays, to control and prevent fire, yet the accidental fire, out of human control, causes very often, destruction of lives, products and capitals. All these necessitate the compensating of losses through effecting fire insurance.

It helps in various ways the businessmen in protecting their factories, machines, plants, shops, stores etc., as the insurer requires them to take precaution for preventing fire and consequent loss of capital. Once the properties are gutted the trader may suffer loss of capital and his production is stopped. The community will suffer as the industries will not get the regular supply of rawmaterials and the consumers may not find the smooth dealings of articles in the market. Fire insurance may help the trader in getting back the capital and starting the production anew.

It brings in peace of mind to the traders, when they effect fire insurance for the wares they preserve in warehouses. They know that since the goods are covered by insurance, they can get the price of the products, if they are lost by fire.

The loss of profit sustained by the traders may be compensated by the fire insurance. This may enable them to meet fixed overhead charges while carrying on production anew.

That is why, every businessman now feels the necessity of getting their products, properties and capitals covered by fire insurance.

Types of Fire Policy

(1) **Valued Policy**—In the case of this type of policy the value of the subject matter of the insurance is determined before and the insurer undertakes to pay a fixed sum which may be higher or lower than the market price. This type of policy is taken out in the case of those articles the value of which cannot be determined correctly after loss

(2) **Specific Policy**—In this policy the property is insured for a specified sum. The value of the property is not taken into consideration. If a property of Rs. 10,000 is insured for a sum of Rs. 5,000, the insured will get the amount of loss up to Rs. 5,000. If the loss suffered by the insured is Rs. 6,000/-, he will be paid only Rs. 5,000/-.

(3) **Floating Policy**—This type of policy is taken out for goods which are kept in several places or warehouses. It is very suitable for a big trader who deals in various products which are subject to different types of hazards. He covers all the products kept in several localities under one floating policy.

(4) **Average Policy**—This fire policy contains average clause. It means that the insured is entitled to be compensated for such a sum which the insured sum bears to the actual value of the property. If the value of the property is Rs. 6,000 and the sum insured is Rs. 1,500 only, the insured is entitled to get ¼th of the sum insured, that is, Rs. 375 only.

(5) **Re-instatement Policy**—In the case of fire insurance, generally, the insurer undertakes to pay compensation in cash after the loss occurs. But under this policy the insurer undertakes to replace the assets by paying the full price of the property.

(6) **Policy for consequent losses**—This is a nice development in fire insurance business. Under this policy in addition to compensating for loss of property, the insurer undertakes to pay for the loss of profit which the insured may suffer consequent on the stoppage of production. The production may be suspended for a considerable period due to repair work and other purposes.

(7) **Declaration Policy**—Under this policy declarations are made from time to time, generally, at the end of a fixed period of time, the value of stock at risk. This type of insurance is taken out for the stock of goods the value of which fluctuates from time to time. The premium is paid on the average amount of stocks mentioned in difffe-rent declarations.

(8) **Policy with Retrospective clause**—Generally, the insurer undertakes to provide insurance cover from the date when the policy is issued. In accordance with the retrospective clause insurance cover is provided with restrospective effect; for example, a fire policy may be taken out on 15th March with the restrospective effect from 1st March. It means that the insurer undertakes to indemnify for the loss or damage the insured may suffer from 1st March to 14th March provided, of course, the property has not been damaged or lost to the knowledge of either party.

Procedure for taking Fire Policy

A fire insurance company is to be contacted for effecting fire insurance and taking a fire policy. In India General Insurance Corporation is to be contacted for this purpose. Then a proposal is to be sent to the company intimating therein the particulars of properties or goods to be insured, their quality, value etc. If the insurer accepts the proposal and particularly agrees as to the value of the property, he sends an inspector to examine on the spot the goods or property. After examining the goods the inspector submits a report to the insurer.

On getting the report from the inspector if the insurer is satisfied, he determines the premium considering carefully the type of insurance policy the insured wants to take and the value of the subject matter of insurance. Then the insured is instructed to pay for the first premium. When the insured pays for the first premium, he gets a receipt from the insurer. This is called receipt for the first premium or cover note. After this the insurer gives an insurance policy stating therein the terms and conditions of insurance to the insured. Before the issue of the policy if the subject matter of insurance is damaged or lost, the insured can claim indemnification by submitting the cover note.

Settlement of Claims in Fire Insurance

When the subject matter is damaged or lost, the insured informs the insurer of the loss. At first he submits a claim paper to the insurer. If the property is totally lost, he states in the claim paper the full value of the property or goods lost. On the other hand, if a part of the property is lost or damaged, the insured submits the claim stating the part that has been lost or damaged, the part that has been salvaged and repairing cost of the part that has been damaged etc. Receiving the claim the insurer sends an inspector to examine about the loss of the property or extent of damage. The inspector examines all about the property and submits a report to the insurer. After getting the report from the inspector, the insurer appoints an assessor to determine the value of loss that is to be indemnified. The assessor determines the amount of loss in such a way that both the parties, that is, the insured and insurer can accept it. Sometimes, the insured is required to take an affidavit from a court to meet the claim. If the insured is not satisfied in respect of the value of loss that has been assessed by the insurer, both the parties appoint arbitrators. If the arbitrators do not agree in respect of the value of the property that has been lost or damaged, an umpire is appointed. The decision of the umpire is final and both the parties have to accept it. Then according to the decision of the umpire the insurer pays the amount of loss to the insured. If there is reinstatement clause in fire policy the insurer replaces the asset that has been destroyed instead of paying cash to the insured.

MARINE INSURANCE

Definition

Marine Insurance is a contract of indemnity whereby one party undertakes to indemnify for the loss or damage to the ship or freight or cargo which the other party may suffer on account of marine adventure during either the continuance of the voyage of the ship or a certain specified period of time.

The ship or the goods on board the ship may be destroyed or damaged by the high tides or storms or by other maritime perils. All these varied types of risks are covered by marine insurance.

Subject matter of Marine Insurance

Subject matter of insurance is of three types, namely, ship, freight and cargo.

Hull Insurance : The ship may face various perils on sea. It may be wholly destroyed or damaged partially by the high tides or storms or by other maritime perils. For covering all these maritime risks the shipowner effects insurance. In this way the shipowner gets rid of the risks by transferring them to the insurer.

Freight Insurance : If the ship is destroyed or the cargo is totally or partially damaged, the shipping company is not in a position to earn freight. So the shipping company effects freight insurance to cover the risk of losing freight.

Cargo Insurance : The cargo of the ship may be totally or partially damaged on account of various maritime perils that the ship faces during its voyage. That is why the owner effects cargo insurance. The insurer undertakes to indemnify the owner for the loss he sustains when the cargo is wholly or partially lost or damaged.

Implied Warranty in Marine Insurance

Marine insurance is a contract in which the essential conditions are mentioned in the contract. But certain conditions are presumed in it. These are called implied conditions or warranties. [illegible] conditions [illegible]. These implied warranties are [illegible].

(1) **Seaworthiness of the Vessel :** The insurance implied warranty is that the ship must be seaworthy at the time of starting of the voyage. Seaworthiness means the capacity of the vessel to face the perils of the sea. [illegible] the capacity of the ship [illegible] the ship may be sunk. [illegible] of cargo [illegible] the capacity of the [illegible] the seaworthiness of the vessel. Besides, adequate number of crew also proves the seaworthiness.

(2) **Legality of the Voyage :** There is an implied warranty also that the voyage must be legal. If the import or export of goods covered by the insurance becomes illegal, other conditions of marine insurance are not applicable. Because the question of indemnification does not arise in the case of goods the export or import of which is illegal. The court cannot also entertain any suit in respect of these goods.

(3) **Non Deviation :** The contract of marine insurance is made on the basis of the course of the voyage and the destination. There is an implied condition that the ship will commence its voyage from a particular port and following a particular course of voyage it reaches at particular destination. If there is deviation from the usual course, the contract becomes invalid. But if there is deviation to avoid any maritime peril or for protecting the larger interest, it does not invalidate the contract of marine insurance. For example, if the course of voyage is deviated on account of inclement weather, war, strike of the crew etc. the deviation does not discharge the insurer of his liability.

Importance of Marine Insurance

With the development of capitalist system international trade has also been flourished. Producers of one country are not only selling their products within the national boundaries but also to other countries. This requires the delivery or transportation of the goods to the purchasing countries. Generally, businessmen avail themselves of the sea transport since water transport is the cheapest.

But there are various hazards in sea transport. The ship may be sunk or stranded or burnt down. It may undergo collision or certain parts of the ship may be damaged on account of high tides or hurricanes. It may also be captured by the enemies or pirates. The cargoes or goods on board the ship may also be damaged or lost. Sometimes, the cargoes are jettisoned, that is, the goods are thrown into the sea for protecting the ship from various perils. The employees may also resort to barratry which means damages are inflicted on the cargoes or goods are thrown into the sea for causing loss to the shipowner.

All these various maritime risks are covered in a marine insurance. The marine insurance cannot prevent maritime losses but arranges for indemnification against losses or damages suffered by the insured.

It has now become a usual practice to effect marine insurance before exporting or importing commodities. The exporter or importer is unable to face the marine risks and his business may be wound up, if the maritime risks are not shifted to other professional persons who undertake marine insurance business. They can get back their capital and the shipowner can also secure his original investment. Moreover, the earning of the shipowner in the form of freight, passage money etc. can also be protected by effecting marine insurance.

In a marine insurance three things are insured, namely, the ship, the cargo and the freight. Hence, both the cargo-owner and the shipowner are immensely benefited.

Marine insurance has now become indispensable in international trade.

Different Types of Marine Insurance Policies

The following are the important types of marine insurance policies—

(1) **Time Policy**—Under this policy the insurer undertakes to provide insurance cover for a specified period of time. The insurer promises to pay for the damage or destruction of the subject matter of the insurance provided the loss is occured within a certain specified period of time.

(2) **Voyage Policy**—In this policy risks are covered only for a particular voyage. The risk starts when the ship leaves the port of departure and it ends when the ship arrives at the port of destination.

(3) **Mixed Policy**—This type of policy covers the risk for a particular voyage and for a specified period of time. If a particular voyage requires six months time, this policy covers all the risks that may arise from this voyage during this period of six months.

(4) **Valued Policy**—In the case of this policy the value of the subject matter of the insurance is agreed upon between the insurer and the insured at the time of entering into contract to avoid disputes later. The value thus agreed upon is taken as the basis for indemnifying the insured against the loss or damage.

(5) **Open Policy**—Here no value is agreed upon between the insurer and the insured, at the time of effecting insurance. It is left to be decided afterwards when the loss actually occurs. The insurable value is determined afterwards by taking into consideration the cost of goods, shipping charges, freight, the cost of insurance etc.

(6) **Floating Policy**—This type of policy is taken out for a big round sum to avoid inconveniences of insuring goods at the time of each shipment. A merchant who is the exporter of certain goods is required to take out marine policy every time he sends goods to other countries. To avoid this trouble he secures the floating policy and declares to the insurer the value and other particulars as each shipment is made. The declared value is then written off from the policy and this procedure continues until the entire amount of the policy is run off.

(7) **Composite Policy**—When more than one insurer undertake jointly the risk of a big amount, a composite policy is issued. Though the risk is undertaken jointly, liability of each insurer remains separate and distinct.

(8) **Port Risk Policy**—It covers all risks relating to the ship while it is in a port during a specified period.

(9) **All Cover Policy**—This type of policy covers all the risks of vessels and cargoes from the point when the goods are despatched from seller's godowns down to the arrival of them at the purchaser's warehouse. Besides usual risks involved in sea transport, it may also cover risks of despatching goods by road or rail.

(10) **Construction Risk Policy**—This policy covers all risks of vessel during the period of its construction for a specified period.

Important clauses in a Marine Insurance Policy

A marine insurance policy generally contains the following clauses—

(1) **Name of the Insured**—In this clause the name of the insured is mentioned.

(2) **Name of the Ship**—The clause states the name of the ship by which the goods are to be despatched. No change of vessel is allowed without the consent of the insurer.

(3) **Name of the Insurer**—The name of the insurance company or in the case of Lloyds policy the names of underwriters are mentioned in this clause.

(4) **Description of the Voyage**—The particulars of the voyage are mentioned in this clause. If the clause includes only "from" the risk starts when the vessel begins to sail. On the other hand, if the clause states **'At and from'**, the insurer undertakes to cover the risks not only at the time when the ship is in port but also when it starts sailing.

(5) **Lost or not Lost**—Sometimes insurance is effected after the departure of the ship. In that case this clause protects the insured even if the ship is lost prior to the taking out of the policy. The insurer undertakes to indemnify the insured provided both the parties are not aware of the loss.

(6) **Commencement and Termination of the Risks**—This clause states when the risk starts and when it will be terminated.

(7) **Warehouse to Warehouse clause**—This clause relates to the insurance of cargoes. It includes all risks from the time the goods are despatched from the seller's warehouse to the time of their arrival at the consignee's godown.

(8) **Touch and Stay or Deviation Clause**—The marine policy states the usual route which the ship should follow and mentions the ports which the ship should touch. Deviation from its usual course is allowed only in emergency. If the vessel deviates from its normal route unnecessarily, the insurer is discharged from liability.

(9) **Sue and Labour Clause**—The insured is expected to take all such measures for the defence, safeguard and preservation of the subject matter of the insurance, if the same is in danger. The insurer, however, undertakes, under the clause, to pay for all reasonable expenses incurred by the insured for this purpose.

(10) **Consideration**—The premium to be payable is mentioned in this clause and acknowledgement of the receipt of the same by the insurer.

(11) **Waiver**—This clause states that in the case of emergency the insurer and the insured must take all reasonable steps to prevent or minimise the loss of the object of the insurance without hampering their rights under the policy.

(12) **Running Down Clause** (R. D. C.)—In this clause it is mentioned what amount the insurer will pay for the damage if the vessel collides with other and the owner of the ship is found guilty in a court of law.

(13) **With Particular Average** (W. P. A.)—Under this clause the insurer undertakes the risk of partial loss.

(14) **Free of Particular Average** (F. P. A.)—This clause states that the insurer is not liable for particular loss of the object of the insurance.

(15) **Free of All Average** (F. A. A.)—Under this clause the insurer is liable for total loss only and neither for particular nor for general average loss.

(16) **Foreign General Average** (F. G. A.)—This states how the general average admitted under the policy is to be settled in a foreign country.

(17) **Free of Capture and Seizure** (F. C. S.)—This clause exonerates the insurer from the liability arising out of the capture or seizure of the vessel by the enemies. This risk may be covered in consideration for paying an extra premium known as war risk premium.

(18) **Continuation Clause**—Under this clause the risks are continued to be covered on payment of pro rata premium, provided the notice is given to the insurer, in case a time policy expires before the arrival of the ship at the port of destination.

(19) **Inchmaree Clause**—This clause states that the insurer is liable, in addition to marine risks, for loss or damage caused to the ship by the negligence of the master or crew. This clause is now extended to the cargo insurance in which case the loss arising out of damage on account of loading, unloading and handling of cargoes is also covered. The name 'Inchmaree' is taken from an English case involving the steamer 'Inchmaree'.

(20) **Excepted Peril**—Under this clause the insurer is exempted from certain liabilities arising out of perils of the sea not covered by the marine policy.

Different Types of Losses in Marine Insurance

The following are the different types of losses in marine Insurance—

1. **Actual Total Loss**—Where the object of the insurance is totally lost and cannot be recovered, it is known as **actual total loss.**

2. **Constructive Total Loss**—Where the subject matter of the insurance is not actually lost but the recovery of the insured object requires such a cost that it is greater than the value of object insured, it is known as constructive total loss. For example, if a ship is stranded on a rock or missing and no news is received even after, say, one year after its departure or is sunk in such a way that its recovery entails huge cost. In all these cases though physically the ship is in existence, it is deemed to be lost and such a total loss is known as constructive total loss.

3. **Average Loss**—Partial loss of the insured object is known as average loss in marine insurance. Average loss is of two types, namely,—

(a) **Particular Average Loss**—It refers to a partial loss of the subject matter of the insurance caused by a peril of the sea and is suffered by a particular interest. For example, chests of tea are sent by a ship. A few chests may get damaged by sea water. This is a case of particular loss. This loss is attributable to a cargo and borne by it.

Particular loss is calculated in this way—Let us suppose, out of the total consignment of 10,000 chests of tea valued and insured at Rs. 10,00,000, 1000 chests got damaged by sea water. It is now estimated that the damaged chests can be sold at Rs. 20,000. The selling price of those chests in good condition is Rs. 2,00,000.

Insured Value of 1,000 damaged chests—

$$\text{Rs.}\frac{10,00,000}{10,000} \times 1000 = \text{Rs. } 1,00,000$$

Value of 1,000 chests in good condition = Rs. 2,00,000

Value of 1,000 damaged chests = Rs. 20,000

Loss incurred Rs. 1,80,000

$$\text{Particular Loss— Rs. } \frac{1,80,000 \times 1,00,000}{2,00,000} = \text{Rs. } 90,000$$

(b) **General Average Loss**—It refers to a partial loss which is caused voluntarily for the benefit of all interested parties, namely, the shipowner, the cargo-owner and the freight earner. Jettison is an example of general loss. It means throwing of some of the cargoes into the sea by the captain of the vessel to lighten the ship during storm or for any other reason. The loss is shared by all the parties proportionately.

Sharing of loss can be illustrated as follows—

Suppose the values of ship, cargo and the freight are Rs. 20,00,000, Rs. 3,00,000 and Rs. 2,00,000 respectively and the loss is incurred to the extent of Rs. 1,00,000.

The loss will be shared thus—

by the shipowner— $\frac{20,00,000}{25,00,000} \times$ Rs. 1,00,000 = Rs. 80,000

by the cargo owner— $\frac{3,00,000}{25,00,000} \times$ Rs. 1,00,000 = Rs. 12,000

by Freight Earner— $\frac{2,00,000}{25,00,000} \times$ Rs. 1,00,000 = Rs. 8,000

Total Loss = Rs. 80,000 + Rs. 12,000 + Rs. 8,000 = Rs. 1,00,000.

Bottomry and Respondentia Bonds

On her voyage the ship may meet accidents and for this she may require immediate repairs. For getting the ship repaired the captain may raise a loan on the security of the vessel, that is, secure the necessary money by mortgaging the vessel. Since money is to be provided by the owner of the vessel for such repair work, the ship is mortgaged first. The mortgage bond which is executed for this purpose is known as **Bottomry Bond.**

If the fund which the captain procures by mortgaging the vessel is not sufficient, further loan is obtained on the security of freight and cargo. The freight which remains due and is payable at the port of destination can be mortgaged. A mortgage bond which is executed for this purpose is known as **Respondentia Bond.** It includes both freight and cargo.

The amount of loan is repayable only on the safe arrival of the ship and cargo. If the ship is lost before her arrival at the port of destination or any specified port, the lender losses his money.

If further loan raised by mortgaging second time the ship, freight and cargo, the second lender can claim preferential right in the repayment of the loan.

At present, the captain of the ship can easily get the necessary instruction from his employer. This has become feasible on account of improved system of communication. Hence, this type of borrowing is rare now-a-days.

Causa Proxima.

It means proximate or immediate or nearest cause. It is now the accepted principle in marine insurance that the insurer would be liable for the loss that may arise from the peril insured against and that the peril must be the immediate or proximate cause of the loss. In other words, if the loss is caused for more than one reason, the nearest or proximate reason should be given importance and the insured would be indemnified accordingly.

For example, a ship is damaged on account of its collision with another vessel and the cargoes are also damaged. Here the immediate cause is collision. On the other hand, while getting the ship repaired if the cargoes are damaged due to their loading and unloading, the proximate reason for such damage to cargoes is handling of them during repair work though the indirect cause is collision. Here the cargo insurer is not liable.

Settlement of claims in Marine Insurance

When the subject matter of marine insurance is lost or damaged on account of maritime accident, the insured informs the insurer of the loss and submits his claim. Along with claim he submits the following information and documents—

(1) Prices of cargoes and to submit a challan or invoice for this purpose.

(2) The quantity of goods that has been destroyed or damaged and the insured informs about the quantity on board the ship by submitting the Bill of Lading.

(3) The claim is submitted by pointing out the conditions of indemnification.

(4) A notice is to be given to the insurer intimating the nature of loss, that is, whether it is actual loss or constructive loss.

(5). The insurer appoints an assessor to determine the amount of loss sustained by the insured. If both the parties accept the value of loss as determined by the assessor the insurer indemnifies for the loss accordingly.

(6) Besides these, before paying for the indemnification, several

other matters are considered. These are insurable interest, sea-worthiness of the vessel, proximate cause of the loss, legality of the voyage, whether the ship has been deviated from the usual course, the types of average loss, that is general or particular etc.

OTHER TYPES OF INSURANCE

1. Employees State Insurance

The aim of this type of insurance is to insure industrial workers against various hazards of life. While on duty the workers may meet various types of accidents and hence, they may be disabled. The disablement may continue for a considerable period of time. They may be sick and for which medical treatment is necessary. The workers having slender income can not afford to undergo costly medical treatment. On account of sickness and disablement they may face unemployment. As a result, they lose wages during the period they go out of employment. Women workers also require help in the form of leave and cash benefits during the period of pregnancy.

Though these hazards cannot be prevented, the Employees State Insurance aims at insuring the workers against these various risks and protecting them from economic insecurity. This type of social insurance is necessary for the protection of the interests of the workers. Almost all the countries in the world now provide for this social security measure.

In India the Employees State Insurance Act was passed in 1948. The aim of this Act is to provide certain benefits to the Indian industrial workers, when they are in difficulties. The Act now provides for the following types of benefits—

(a) **Sickness Benefit**—Workers who are sick and require medical treatment and attendance can claim sickness benefit. A worker can claim this benefit provided he has paid the contributions due from him. He is entitled to a cash benefit equal to half the average daily wage. He gets this money benefit during the period of sickness which shall not exceed 56 days during any continuous period of 365 days.

(b) **Medical Benefit**—Workers are also entitled to free medical treatment for sickness and injury while on duty. Medical benefit includes free medicines, drugs, hospitalisation in case of emergency, home attendance, specialist advice for acute cases, other medical treatments and prenatal and postnatal cares for woman workers. A worker is

entitled to medical benefit during the period he pays his contributions.

(c) **Disablement Benefit**—An employee is entitled to disablement benefit, if he is injured while on duty. In the case of temporary disablement he can claim cash benefit which is equal to half the average daily wage. Permanent disablement may bring for him cash benefit which a worker is entitled to in the case of temporary disablement but it continues for life.

(d) **Maternity Benefit**—Every insured woman worker can claim this benefit before and during the period of confinement. She can claim a cash benefit at the same rate as sickness benefit or 75 paise per day whichever is greater. She is entitled to get this benefit for a period of 12 weeks in all, of which 6 weeks must precede confinement.

(e) **Dependent's Benefit**—Dependents of an employee are entitled to this benefit, if the employee dies as a result of any employment injury. A cash benefit in the form of pension equal to half the usual wages of the deceased employee is payable to the widow and children. If the employee does not leave behind widow or a legitimate child, the benefit is payable to other dependents. For claiming this benefit an application along with a death certificate is to be sent to the local officer.

The Act now applies to a few industries in certain selected areas. The following workers are not included within the scheme—

(a) workers employed in seasonal factories,

(b) workers employed in mines and railway running sheds,

(c) members of the military, naval and air forces of the Government and

(d) workmen whose monthly income exceeds Rs. 500.

A fund is created for providing necessary finance for the working of this scheme. Besides usual contributions from the workers equivalent to two percent of their average earnings, employers and State Government also contribute to this fund.

The responsibility of the operation of this insurance scheme is entrusted to an autonomous corporation known as Employees State Insurance Corporation. The Corporation consists of persons drawn from Central and State Governments, Medical profession, Parliament members, employers and employees. Minister of Labour and Minister of Health of the Central Government are ex-officio members of the Corporation.

For administration and supervision of the scheme the corporation has appointed a standing committee manned by persons elected from among the members of the corporation.

2. Workmen's Compensation Insurance

The Workmen's Compensation Act was passed in 1923. The Act requires the employers to pay compensation to the workers who suffer from employment injury. The Act lays down that if an employee is injured due to accident while he is on duty, his employer shall be liable to pay compensation to him. Prior to the enactment of this Act, the employers could avoid the liability on various defences.

For the purpose of securing necessary finance to pay conpensation to the workers the employer effects workmen's compensation insurance. Once this policy is taken out the employer can get the amount as and when he is required to pay compensation. This is a great benefit which an employer enjoys since he is not required to meet this liability out of the capital funds invested into the business. The premium which is paid for effecting the insurance is simply shown as a business expenditure. The worker will also find no difficulty in getting the necessary cash benefit from his employer, when he is injured and thus meets forced unemployment.

The country is benefited, as a large section of the industrial workers are insured against risks of employment and hence protected from economic insecurity. Moreover, the insurance company can also divert a large amount collected as premium to productive channels.

The importance of this type of insurance has now been reduced to a great extent on account of employees state insurance scheme.

3. Accident Insurance

This is a type of insurance by which a person is indemnified by the insurance company for injury caused to him by an accident. It is also a contract of indemnity and hence 'utmost good faith' and 'insurable interest' are its essential requisites. Accident is clearly defined in the insurance policy which is issued while effecting insurance.

A property can also be insured against various risks of damages by this form of insurance. Whenever any damage is caused to any property through accident, it becomes unuseable and hence needs repair work. In the case of a machine some of its parts may have to be replaced or repaired for making it useable again. All these repair and overhauling require finance which the insured can obtain from the insurance company.

The owner of the property is very much benefited since he is not required to discontinue its use or stop production of commodities for which the particular property is used. Temporary suspension of utilisation of the insured property is necessary so long the property is repaired with the finance supplied by the insurer.

4. Motor car and Third Party Insurance

The owner of the motor car may face accidents causing damage to the car. The accident may occur while it is driven along the road. The owner may also suffer from losses when the car or some of its accessories are stolen. When the car is on the road it may cause accident and afflict damage to third party, while the car is in the garage or parked somewhere else it may be stolen or some of its parts are liable to be stolen. To insure against all these risks motor car insurance is effected.

While it is driven along the road, the motor car may inflict damage to third party for which the owner of the car may be required to pay compensation to a third party. A third party insurance policy is taken out for this purpose. This type of insurance insures the owner against damage or harm inflicted on a third party, as it supplies the necessary finance which the owner is required to pay as compensation.

5. Fidelity Insurance

By this type of insurance the insured is protected against embezzlement or any sort of breach of trust. This type of insurance becomes increasingly popular in business houses. The risk arising out of the infidelity or breach of trust on the part of the employees can be insured by taking out fidelity guarantee bond. The business houses are required to appoint persons in the position of trust and responsibility. Particularly, in the Cash Department risks are there and losses may occur on account of the dishonesty of the cashier. This is very important in banking business, as almost every employee deals with cash in a bank. Sometimes, the whole of the staff of an employer is covered by one fidelity insurance policy.

Usually, fidelity bond is executed by the insurer in the names of persons placed in the position of trust and responsibility guaranteeing to pay compensation to the employer in case he suffers damage or loss on account of dishonesty or breach of trust on the part of any of his employees. The premium for taking out such a bond is required to be paid by the employee.

This type of insurance also relieves the employee from supplying cash deposit while he accepts the position of trust.

The employer also gets back the lost capital since he is indemnified by the insurer, whenever his property is embezzled.

The insurer can also prosecute the employee responsible for breach of trust in a court and for this he can demand from the employer all facilities for prosecution.

Fidelity insurance is a contract of indemnity and hence, utmost good faith and insurable interest must be its essential requisites.

But the insurer is not liable for the carelessness of the employer. The employer is required to take reasonable care and precaution about the employees to prevent the embezzlement. In case a breach of trust is committed on account of sheer negligence and carelessness of the employer, no claim can be instituted against the insurance company.

6. Burglary Insurance

This is a type of insurance by which the insured is indemnified against the risk of loss that may arise on account of burglary, dacoity, larceny etc. The insurance policy is taken out to cover the valuables and other contents of dwelling or business houses against burglary. Machines, materials and other valuables of the business houses are now covered against burglary, larceny etc. by effecting this insurance. The burglary insurance does not cover theft by customers and employees. Sometimes, a comprehensive policy is taken out to cover all risks.

But the insured must take reasonable care and precaution for the protection of the property from burglary. If the burglary is committed due to negligence and carelessness on the part of the insured, the insurer is not liable to pay the compensation.

7. Export Risk and Credit Guarantee Insurance

This type of insurance is effected for the protection of exporters from manifold risks usually associated with the export of commodities to other countries. Risks which are not covered by the commercial insurers are usually included in the export risk insurance. This type of insurance cover of export risks is now necessary in India particularly, at the time when the country is suffering from foreign exchange crisis. It is now an imperative need that the country should increase export to tide over the exchange difficulties.

The Central Government appointed a committee in 1949 to consider the feasibility of covering export risks by some sort of insurance for boosting up export trade. But the committee did not like the idea and recommended other measures like the improvement in the quality of products, standard trade practices etc. for promoting export. The main argument against such insurance cover put forward by the committee was that India, at that time, developed export trade only on traditional lines and the Indian exporters and foreign importers had established contacts between them through long and normal trading.

Since the undertaking of five year plans, India has been trying to

improve her export trade by exploring new markets and selling new products and new varieties of traditional products. This has necessitated the establishment of contacts with new buyers in the foreign markets. Sometimes export on credit becomes necessary to create demand for Indian products in the overseas market. As a result, export risks have now been increased and hence. Government action is necessary to cover such risks. By issuing marine policy commercial insurers usually cover risks that are likely to be involved in transit. Other risks, regarding default in payment, exchange restrictions etc. which are as important as the transit risks are not covered. Exchange banks have, of course, minimised to a great extent some of these risks through issuing letters of credit and providing remittance facilities. But Governmental measures are much needed to reduce these risks.

The Central Government felt the need to cover export risks as a step towards export promotion and hence established the **Export Risks Insurance Corporation** with an authorised capital of Rs. 5 crores. The subcribed capital fixed at Rs. 2·5 crores was entirely contributed by the Union Government. The main function of the Corporation was to cover such export risks which were not covered by commercial insurers.

For covering export risks and at the same time for providing export finance the **Export Credit and Guarantee Corporation** was set up in 1964. The Corporation took over the normal functions of the Export Risks Insurance Corporation. The main functions of the Export Credit and Guarantee Corporation are to issue export risks policies for covering risks involved in exporting goods and to provide credit facilities to Indian exporters for the promotion of export. It has not taken over the usual functions of the exchange banks which normally provide finance for export trade. On the other hand, it gurantees credit for export trade provided by the exchange and commercial banks and supplements, in this way, export promotion efforts. It provides various other guarantees, namely, guarantee for foreign exchange, facilities for import of raw-materials which will be utilised for manufacturing export goods etc.

The following are the risks usually covered by the Corporation :

(a) insolvency of the foreign buyers and default in payment.

(b) export restrictions,

(c) import restrictions in the foreign country after the goods have been despatched,

(d) exchange restrictions,

(e) war and civil war,

(f) any other contingencies arising within or outside the exporting country over which the exporters have no control.

TRANSPORT

Importance and Functions

Economic prosperity of a country owes much to the development of transport and communication. In modern times so much importance is given to the transport that it has earned the name of 'life line' of a country for running trade and commerce and maintaining economic stability. Before the industrial revolution self-sufficient village economy was developed, as men and animals were the only means of transport and so trade and commerce between distant places were somewhat impossible. Places of production and consumption were restricted to local areas. But surplus wares particularly agricultural crops of different areas necessitated men to find out some sort of transport which should be speedy, cheap, dependable and capable of carrying bulk goods at a time. Scientific inventions and discoveries have helped men to find out such means of transport. And industrial revolution brought about radical changes in the means and modes of transport. Railways has increased the speed and shortened the distance between the remote places of a country. Railways is also capable of carrying bulk merchandise at a time. A country has now come very close to another on account of the development of the steamship. And air transport has shortened this distance still further. At present, motor transport has added one more member in the family of transport. It is a suitable means of transport particularly in those places where railways cannot be developed on account of rugged topography and narrow spaces.

As a result of the development of these different types of transport, the self-sufficient village economy has been shattered and over its ruins flourished the international trade. Since a country has come very near to the other it can purchase from and sell to the neighbouring countries goods and services. A country can therefore purchase the products it needs from other countries by selling out to them what it can produce advantageously. This feature has led to regional specialisation. Transport has made possible industrialisation in different parts of the world. Even if a particular area has not rawmaterials and powers, it can secure them from distant places by means of speedy and cheap transport like railways and steamships. In fact, cotton textile industry has been developed in the market areas because of the transport facilities. Iron and Steel industry requires more than one rawmaterial and in some areas these are not available side by side. In that case if transport facilities are available the industry can be located in an area where one rawmaterial is found, as it can secure other rawmaterials from different other places.

Transport also helps the distribution of the goods all over the places of consumption. Places of production and consumption are now wide apart but transport makes it practicable for a businessman to get the goods from the places of production and distribute or sell the same in the places of consumption. It has widened the market, as it can carry the merchandise to distant places. Both consumers and producers are benefited, as consumer can get wide varieties of goods and producers can increase sales volume.

Transport gives commodities the place utility by making them available in places where they are required very much.

It increases labour mobility and makes available both skilled and unskilled labourers in areas where factories have been located. This has benefited not only the industrial enterprises but also mitigated the unemployment or under-employment problem in the underdeveloped and undeveloped areas.

Imperfect market stands in the way of rapid economic growth. In many countries monopolies have been discarded and importance has been given to the free and fair competition. Transport facilities can make the market perfect by enabling the buyers and sellers to have easy access to one another.

By removing the market imperfection and widening the market as far as possible the transport makes for optimum allocation of resources. The possibility of widening the market on account of transport facilities has had also greater influence on the size of the business unit. The wider the market the greater is the possibility of a small scale business to become a large scale unit, as it can increase its production and sales volume.

On account of availability of transport facilities in the industrial areas the industrial enterprises can secure their stock easily and conveniently. It is not necessary, therefore, for the industrial enterprises to keep a large volume of stock and block therein unprofitably a large amount of capital. Hence, the cost is reduced, as the released capital can be locked up elsewhere profitably.

Communication system, particularly, the postal services have been helped much by the transport system and it is now possible to provide postal services to the distant and remotest places. Export and import trade is now financed by accepting and paying for documentary bills. This method of financing trade through documentary bills is not practicable unless there is an efficient system of transport and communication. In the country of federal state structure trade between different states is also financed through documentary bills. Transport has also increasing influence on the organised development of inland trade.

Transport is also responsible for spreading culture from one region to another. The superstitions and narrow outlook of the underdeveloped areas can be removed by having the impact of progressive outlook of the developed and prosperous countries.

It is, therefore, clear that an efficient transport and communication system is very much responsible for the economic development of a country, of the world and is vital for the development of trade and commerce.

Different Types of Transport

There are three important types of transport, namely, (1) Land Transport. (2) Water Transport and (3) Air Transport. Road and Railways are the principal forms of land transport. Water transport includes coastal shipping and foreign services and air transport is now increasingly concerned with the carriage of goods besides its usual passenger services.

Let us consider relative advantages and disadvantages of different types of transport.

Road Transport

Roads are now the veins and arteries of a country through which improvement circulates to different parts of the country. Linking up the different areas of a country is essential for its expeditious economic growth. Particularly linking up of the places of production with the places of consumption is necessary, otherwise the levels of production, consumption and distribution cannot be increased. Road transport has now become indispensable for the rapid economic growth of a country. Industrial enterprises prefer road transport, as it is cheap and convenient particularly in moving the merchandise at a shorter distance ; for whatever the means of transport it is always started and ended up with road journey. In fact, at present, by any measurement road transport is the major means of inland trade in all the highly developed industrial countries. In Italy road transport accounts for 70% of the total volume of land transport. In the U. K. it is to the extent of 56% and in Australia road transport shares 50% of the total traffic but in India road transport is not very much developed. This is due to the fact that roads in India have not been developed both quantitatively and qualitatively and secondly, nonproduction of adequate number of vehicles.

Roads in India may be classified as (1) National High ways (2) State High ways (3) District roads and (4) Village roads.

The national high ways are the trunk roads that have connected the length and breadth of the whole of India. These trunk roads have connected different state capitals, important cities and metropolies and also the ports. The Central Government is now responsible for the construction and maintenance of national highways. Trunk roads in major parts of India particularly in the northern area connecting the eastern and western India were reconstructed during the British period. After independence the Central Government has extended the existing ones by connecting the missing links and constructed new trunk roads for the national interest and integration. There are at present a good number of national highways and the length of the trunk road has now come to almost 30,000 kms. The national highways of (a) Calcutta to Pathankot via Delhi (b) Calcutta to Madras (c) Madras to Bombay (d) Calcutta to Bombay and (e) Bombay to Delhi are now very important. They are important not only for easy flow of inter state traffic but also from the military point of view. India has now the largest national high way net work in the whole of Asia.

There are also state high ways and they are the life lines of commerce within the State. These roads connect the important cities of the State, railway stations, ports and establish a link with the national high ways. They are now looked after by the State Governments. District and village roads connect important urban centres, market and production centres, railway stations and particularly establish links between the interior of the village with the market places, urban centres, ports and railway stations. Efforts were made during the first, second and third five year plans to improve the road links both in the central as well as in state and village sectors. During the fourth five year plan a provision of Rs 420 crores was made to improve road links, connect missing links, construct bridges over rivers and to establish new trunk roads in the central sector. A provision of little less than of the like amount was also made in the State and Union territories for similar purposes.

Despite all these efforts road facilities in India are not satisfactory. The total road length of the country is to the tune of 30 kms. per 100 square km. compared to 125 km. in the Western European Countries.

Advantages of Road Transport

The following are the **advantages** of road transport—

(1) It is a cheaper means of transport, as the maintenance of motor, lorries, vans and other vehicles is cheaper than that of railways. They can use the roads freely. Taxes, depreciation and other recurring

charges are also very low. But at present the price of petrol has become so high that it is becoming a costlier means of transport. This problem of using costly petroleum and lubricating oil has now been met by increasing use of diesel oil.

(2) It is a flexible means of transport and it can deliver the goods anywhere, even to the doorstep of the purchasers. Unlike railways which can carry the merchandise and passengers to a particular point, the road carriers can collect them from the places of origin and can carry them to any place.

(3) Road transport is very suitable, that is, speedier and cheaper at shorter distances particularly when the distance is over 5 miles and less than 100 miles. For a longer distance it can be made convenient when loads can be arranged at the time of return journey.

(4) It is very suitable for quick delivery of the goods to the destination, as the motor transport has no time schedule for packing and loading like the railways. Moreover, truck service can be provided for varying degrees of load and it is not required to wait for full capacity load.

(5) In rural areas where railways cannot be developed on account of the requirement of greater amount of investment and unfavourable topography, motor transport can conveniently be utilised for connecting the remote rural areas with the urban marketing centres.

(6) Since transhipment of goods is not necessary in the case of motor transport, as it can carry them at any point, goods require little packing or even no packing and so loading and unloading can be done at a greater ease and less cost.

(7) As railways can carry goods to a particular point, in most cases it acts as a feeder to railway transport.

(8) For the transport of perishable and fragile commodities, road transport is very suitable on account of its nonsusceptibility to loss or damage, as it does not require transhipment and speedier at a shorter distance.

(9) Since the truck can carry passengers and goods at any point and speedier and less costly, it can conveniently be used for defence purposes.

(10) Motor transport can provide greater scope for self-employment and it requires little investment.

Disadvantages of Road Transport :

The drawbacks of road transport may be summarised as follows—

(1) It is less dependable, as it has no time schedule like the

railways and hence unnecessary delay in transit may cause inconvenience.

(2) For long distance transport it is not suitable, as the greater chances of breakdown may cause irregular and uncertain delivery of goods. Moreover, for longer distance it is not cheaper as the cost of petrol has now become almost prohibitive.

(3) In the underdeveloped countries road transport is not safer, as the roads remain unmacadamized and are maintained poorly and hence, the chances of accident and breakdown are greater.

(4) For carrying heavy and bulky goods road transport is not suitable. Railway transport is convenient and suitable in this respect.

(5) There is no basis in determining the fare rates on account of the existence of a large number of small operators. Hence varying rates are charged by different operators even for similar types of goods and for similar distances.

Railways

Railways are the important means of inland transport. Within the country it provides a cheap and speedy transport. Though it is not practicable for the rail transport to carry goods and passengers at any particular point, for carrying heavy and bulky goods and at a longer distance, it is very much suitable. Railways are responsible for the development of industries in the different areas of a country, as they provide facilities for securing rawmaterials and powers and delivering finished products to the markets. This transport system helps the extension of the market and the large scale industries have been developed in each and every country of the world simply because of the development of the railways. In other words, economic growth of a country owes much to the development of its railway transport.

Advantages of Railway Transport :

The advantages of the railway transport may be stated as follows—

(1) Railway transport is one of the causes for bringing about a radical change in the socio-economic system by paving the way for industrialisation and thus shattering the self-sufficient village economy.

(2) Unlike motor transport it provides a suitable means for carrying heavy and bulky goods to distant places. It is particularly suitable for long distance traffic.

(3) As it provides a speedy transport and is convenient for long distance travel, it can suitably be utilised for military purposes, particularly for the movement of troops and their necessary arms and food. In fact, in India, railways were originally built up for military purposes.

(4) Since it can remove the scarcity of goods in different areas by ensuring quick and regular supply of them by providing speedy and regular means of transport, it has brought about an equalisation of prices throughout the country.

(5) Railway transport is very much helpful in providing quick and regular relief like foodstuff to the different areas suffering from famine and drought.

(6) Though large investment is necessary for railway transport and its maintenance cost is also high, for long distance carriage of goods and passengers the cost of transport is comparatively low.

(7) Mobility of labour from one region to another has been very much encouraged and the industrial enterprises now find no difficulty in securing both skilled and unskilled labour.

(8) Railway transport has necessitated the establishment of certain ancillary industries which provide spare parts and machinery to railways.

(9) Besides transport, railways also provide certain other services, namely, warehousing facilities, handling and loading facilities, weight and measurement, special care for fragile goods and protection from loss or damage.

(10) Railways provide employment to millions of persons, as it requires large number of workers for its operation and maintenance.

(11) There is a definite basis for determining the railway rates and as there is no competition it can offer convenient rates to the businessmen and passengers.

Disadvantages of Railway Transport :

Disadvantages of railways are as follows—

(1) Railway transport needs a huge amount of initial investment. Unless a country is sufficiently prosperous, it cannot make arrangement for the development of railway transport.

(2) For short distance travel railway transport is very costly and so it cannot compete successfully with the motor transport.

(3) Railways cannot provide door to door service, as it can carry goods and passengers to a particular point. Hence, transhipment increases cost of transport.

(4) Railways have failed to serve the remotest rural areas as the topographical features and little volume of traffic do not permit the railway development in the rural areas.

(5) In most of the countries railways are state owned and state managed. Though state ownership increases investment, managerial

inefficiency very often creeps in and increases the cost of operation and maintenance.

(6) As railway transport is always organised on a large scale, it fails to give any importance to personal relations.

Indian Railways

Railways play a very important role in the economy of India and now carry about 80% of the goods traffic and 70% of the passenger traffic. Indian railway system can now be called the largest in Asia having about 60,000 kms, of railway lines, running 11,000 trains daily carrying 6·5 million persons everyday, about 7 lakh tons of goods daily and earning an annual revenue of about Rs. 1,000 crores.

Save and except a few mountainous and desert areas in most of the Indian territories geographical and physical conditions are very suitable for the network of railways. The Gangetic basin with dense population provide enormous plain lands for railway development. The Himalayas in the north and Western Ghats in the south provide considerable difficulties in the construction of railway lines. The mountains in the Central India like Vindhas and Satpura are not lofty ones and hence, railway lines have been constructed there by providing tunnels to cross those mountains. In the desert of Rajasthan with scanty population and consequent smaller volume of traffic and in Kashmir with lofty mountains and rugged topography railway development is also very difficult. In West Bengal and Assam innumerable rivers and their annual inundation cause great obstacles for the construction of railway lines and bridges. In all other regions railways have been developed with greater ease looking, of course, to the potentialities of traffic.

Before independence railways were constructed for three considerations, namely, defence purpose, export of rawmaterials and import of finished products. As a result, uneven distribution of railways was noticed at that time. During Second World War railway lines in many areas were destroyed and the partition of the country necessitated the reconstruction and replacement of railway lines and stock.

Though efforts have been made during the successive plan periods to augment the railway capacity for accommodating increasing volume of goods and passenger traffic and providing dependable life lines of India's trade and commerce, much still remains to be done. In the first plan a large sum of money was spent for the rehabilitation of railway stock and materials that were destroyed during the war and for reconstruction of the lines for mitigating transport problems brought

about by the partition of the country. Efforts were also made to achieve self-sufficiency in the matter of railway development and so a locomotive workshop was established at Chittaranjan, a coach factory was installed at Perambur, Madras and the railway capacity was increased to meet increasing volume of traffic during plan period. During second and third plan real progress was made. A sum of Rs. 1.000 crores was spent in the second plan for the construction of new lines, double track lines, for achieving self-sufficiency in the production of locomotives and coaches and for modernisation purposes, particularly for diesel traction and electrification. In the third plan provisions were made for the construction of 2,000 kms. of new lines, doubling of 4,000 kms., electrification of 2,500 kms., production of 2,100 locomotives and an increase in the goods traffic to the extent of 25 million tons. The fourth plan allocated a sum of Rs. 1,050 crores for increasing the capacity of the railways for meeting increasing freight and passenger traffic that would be provided by the basic and key industries and particularly coal mining industries.

Railways in India have brought about great changes in agriculture and industry. Railways have converted self-sufficient agriculture into commercial agriculture by connecting remote villages with the market places in urban areas and with the ports. Industrialisation has also been effected in different parts of India during the plan period chiefly on account of the rapid development of railways. Inland trade has been flourished to a great extent and it has helped the trade between different India States undertaken particularly for meeting increasing demand for foodstuff and rawmaterials from the deficit States. Indian society has also been changed from feudal to industrial one on account of industrialisation and increasing impact of western outlook imported into India mostly by Indian railways.

Railway Receipt (R. R.)

Railway Receipt is an acknowledgement of goods received by the railway authority for carriage and a receipt of freight paid thereon by the consignor. It can, therefore, be called a contract of Affreightment between the railways and the consignor. Since it is a receipt of goods delivered to the railway authority for transportation, it is also a document of title to the goods. As it is a document of title to the goods, it can be transferred or assigned to other person by endorsement or delivery. And the assignee of the railway receipt can have possession of the goods when he becomes the holder of the receipt by endorsement and delivery. It means that when the railway receipt is endorsed to

any person, he can get legal possession of goods stated in such receipt without any sort of physical transfer of goods. Notice to the railway authorities is not necessary in the case of endorsement of railway receipt. Railways are required to deliver the goods to the holder of the railway receipt even if such holder is not a real owner of the goods.

But the railway receipt is not wholly a negotiable instrument though it possesses some of the characteristics of the negotiable instrument. It is a quasi-negotiable instrument.

It is not a negotiable instrument inasmuch as the assignee of the railway receipt cannot have better title over the goods covered by the railway receipt unless the assignor has In other words, if the assignor has any defect in the title, the assignee's rights will be subject to such defect.

Though railway receipt can be transferred or assigned, the contract of affreightment as evidenced by railway receipt continues to operate between the consignor and the railway administration. In other words, only the consignor can sue the railway administration for any breach of the contract on the part of the railway administration or their servants or agents. Though the holder of the receipt can take delivery of the goods, the right to sue the railway authority can only be exercised by the original consignor.

Distinction between Railway Transport and Road Transport :

The following are the points of distinction—

(1) A huge amount is needed to be invested for railway transport. Its maintenance cost is also very high. But a smaller amount of capital investment is sufficient for motor transport. Its maintenance cost is also not very high.

(2) Railway transport is suitable for sending goods to distant places. But motor transport is convenient as a short distance transport.

(3) Railway transport can carry goods from one station to another. It cannot deliver goods to any place. But motor transport can deliver goods to any place. Even it can deliver goods to the door-step of customers.

(4) In the case of railway transport, cost of transport is comparatively low for long distance carriage of goods and passengers. Motor transport is not cheaper for longer distance as the cost of petrol and diesel has now become almost prohibitive.

(5) Railway transport is covenient for carrying bulky and heavy materials. Motor transport is not suitable for this purpose.

(6) Railway transport is dependable, for it follows a time schedule. Motor transport is less dependable for it does not maintain any time schedule and unnecessary delay in transit may cause inconvenience.

(7) In the case of motor transport there is no definite basis of determining fare rates. But fare rates are fixed on a definite basis in the case of railway transport.

(8) In many cases motor transport is not safer on account of the poor maintenance of roads. Hence, chances of accident and breakdown are greater. But railway transport is safe as it is maintained properly.

(9) Railway transport cannot meet personal grievances as it is organized on a large scale. In the case of motor transport more attention can be paid to personal relations.

(10) Railway transport requires a large number of workers. Hence, it provides employment to millions of persons. But motor transport is suitable for fostering self-employment.

Water Transport :

Countries in the world having rivers and lakes have positively developed internal water transport system. East and West Germany, France and Indian Union have developed nicely the internal waterways communication system. Countries having insular and peninsular locations like the U.K., Japan, India and Italy have developed sea transport. Coastal states in the world have also developed sea transport.

Water Transport can be classified into (1) Internal Water Transport provided by rivers and lakes and (2) Sea Transport.

Advantages of water Transport :

The following are the advantages of water transport—

(1) For international trade and commerce water transport is unique and sometimes indispensable.

(2) Both for internal and international trade and commerce water transport is cheaper and more convenient. It is cheaper than railways and roadways because there is no maintenance charge for the use of seas, rivers and canals. In the case of railways and roadways a large sum of money is required to be spent for the construction and maintenance of roadways and railroads.

(3) Since two-thirds of the earth is covered by water, it can carry the merchandise to a wider area, to all the continents.

(4) Modern ships provide large spaces and so it is suitable for the carriage of heavy and bulky goods to distant places.

(5) For the transportation of fragile goods it is more suitable and convenient than motor transport, as the absence of frequent jolt or jerking provides for the least possibility of breakage.

(6) It is very suitable and cheap for the transportation of goods of small value and nonperishable and durable in nature.

Disadvantages of water Transport :

The following are the disadvantages of water transport—

(1) Water transport is unsuitable for quick movement of merchandise, as it lacks speed.

(2) It can carry goods to a wider area but not to all places. It is convenient only for those areas where there is river or canal or ocean.

(3) Unfavourable climatic conditions may prevent the use of water route all the year round. Lack of voluminous water during the summer season and frozen rivers, oceans and lakes during winter very often restrict the use of water route for certain months a year.

(4) It cannot provide door to door service and hence, transhipment of goods may increase the cost.

Indian Shipping :

India has not developed a network of internal waterways communication system, though overseas transport has been developed to a considerable extent since independence. Rivers in Northern India are navigable and they carry voluminous water all the year round, as they are all snowfed rivers. But the rivers in South India are not all navigable as they have also brakes and falls. They do not also maintain the flow since they are not snowfed rivers. Before the advent of railways the northern rivers handled a considerable amount of inland trade. In India inland communication covering a distance of 5,000 miles has been well served by rivers and canals. But the railway development has given a tremendous setback to the inland waterways communication and it now handles a very small amount of cargoes.

There is now the tremendous possibility of the development of inland waterways. Rivers in Northern India can have connection with one another by artificial canals. Similarly, rivers of Northern India can establish links with South Indian rivers by means of excavating artificial canals. Moreover, Indian railways cannot meet the entire demand of transport. Indian industries now require quick transportation of raw materials. Therefore, inland waterways can supplement the railways in removing the transport bottleneck which may get worse in near future on account of the development programmes undertaken by the Government.

During foreign domination the then British Government did not virtually allow the Indian shipping companies to operate both for coastal trade and overseas trade. In 1920 the Scindia Steam Navigation Company, the first Indian shipping company, was established under much stress and strains. The Britishers did not look with much favour the operation of Indian companies in overseas trade and frequently put the company in severs difficulties. One committee appointed by the Government, however, in its recommendation allocated coastal trade to Indian shipowners and the overseas trade to the British companies. The British India Steam Navigation Company (B I S N Co.) and P.O. dominated in overseas trade.

After independence in 1947 the domination of British shipping companies was very much slackened and the Scindia Company opened many lines for dealing with overseas trade. Another important shipping company, India Steamship-Company was established and it has now been operating in many routes.

In 1950 it was estimated that India should have 2 million gross registered tons (GRT) to get 100% of the coastal trades, 75% of its trade with Burma, Ceylon and other neighbouring countries, 50% of India's overseas trades and 30% of the trades with far eastern countries. In the first five year plan the target was fixed at 6 lakh tons and in the second plan the target to be achieved was estimated at 9 lakh tons. In the third plan the emphasis was made to increase the number of Indian ships and the tonnage capacity was increased to 11 lakh tons. Provision was made in the fourth plan to increase the tonnage capacity to 40 lakh tons (GRT) and to increase the number of Indian ships so that they could handle 40% of India's overseas trade. It has now been estimated in the draft fifth plan that the tonnage capacity of the Indian ships should be increased to 90 lakh tons (GRT) and provided for the increasing participation of Indian ships in the overseas trade. At the same time shipping yards have been established at Vizagapatnam, Calcutta and Cochin. Marine engineering and Nautical Colleges have also been established to train Indian naval workers. But the foreign exchange difficulties and the dependence on the foreign companies for the supply of spare parts stand in the way of increasing the manufacturing of the Indian ships.

For participation in shipping business the Government established Eastern Shipping Corporation in 1952 but the responsibility of management was given to the Scindia Steam Navigation Company. In 1956 the management was taken over by the Government and in the same year the Western Shipping Corporation was set up. The Eastern Shipping Corporation operated services between Madras and Rangoon,

Madras and Andamans, Calcutta and Andamans, Madras and Singapore, India-Australia, India-Far East and India and East Africa. The Western Shipping Corporation strengthened Indian fleet in overseas routes to Persian Gulf, Red-Sea, USSR and Poland. Later in 1961 two government sponsored shipping companies were amalgamated and Shipping Corporation of India was established with an authorised capital of Rs 35 crores and paid up capital of Rs 23 crores.

Types of Vessels :

There are usually three types of vessels, namely, **Liners, Tramps** and **Cargo Liners.** Liners run on specific routes and according to a definite time schedule. They maintain regularity in timings and in the matter of ports of call. Liners carry both passenger and cargo. When a liner carries both passenger and cargo, it is called **Cargo Liner.** On the other hand, **Trampships** do not run on specific route. They have also no time schedule. Generally, a tramp begins its sailing when the entire space is loaded with cargo. Tramp ships follow a route where the going is good and where they can get a regular flow of traffic. But they may abandon the same route, if it becomes unfavourable.

Salvage :

Salvage means the reward which a person is entitled to when he saves the cargo or the ship or any of its appliances or tackle from any loss or damage caused by maritime peril. Before claiming the reward the salvor must prove that he has rendered such services voluntarily and that in doing so he has showed dexterity and skill and that he has undertaken risks. It must also be proved that the ship and the cargo were actually in danger and that one or both were saved only due to salvage operation undertaken by the salvor. The salvor has a maritime lien on the ship, the cargo and freight for realising his reward. The amount of reward may be determined by the parties themselves or it may be settled by the court.

Jettison :

Jettison means the act of throwing overboard the ship a portion of useful and valuable cargoes to save a ship in times of danger from further loss or damage. When the ship is on the point of sinking on account of heavy storm at sea, the captain of the ship may find it necessary to lighten the ship by throwing overboard the ship some of the valuable goods.

To constitute an act of jettison the following points must be proved :—

(a) The loss of goods constitutes an actual loss.
(b) The losses have been incurred voluntarily.
(c) Goods thrown overboard the ship are useful and valuable.
(d) Loss or damage of cargo is occured not on account of accidental washing the overboard by the sea water even if such loss or damage of goods may cause lightening of the ship.
(e) Losses or damages must not be occured on account of the inherent fault of the goods themselves.

Air Transport :

During the Second World War air transport made a rapid stride. In India, particularly, different important vulnerable places were connected by means of air transport during the Second World War. Similarly, in other countries links have been established for connecting remote places. Air transport has important advantage of supplying goods to the areas still remaining inaccessible to other modes of transport. And in times of natural catastrophy like flood, earthquake etc. air transport is more helpful in carrying necessaries to those places than other means of transport.

At present, on account of improvement in science and technology, new and improved types of aeroplanes have been found out. The new aeroplanes now provide greater space and can carry goods of bulky and heavy in nature.

Good weather is suitable for the development of air transport Vast areas with a number of commercial centres like India, U.S.A., U.S.S.R. and China provide greater scope for linking different places by means of air transport.

Through air transport carries only a negligible part of the total traffic on account of high cost, international trade has been flourished very much on account of the rapid development of the air transport. This has become feasible due to the fact that the air transport has shortened the distances between the different countries.

Advantages of Air Transport :

The following are the advantages of air transport—

(1) The important advantage of air transport is its speed. It can carry goods quickly to distant places. It is, therefore, suitable for carrying perishable goods to remote places. It is also a favourable means of transport for the goods the demand of which is very stable.

(2) It can carry goods and traffic not only to distant places but also to those areas which remain inaccessible to other modes of transport.

(3) Fashionable or artistic goods which are not bulky or the value of which is high in proportion to their weight can bear the high cost of transportation by air. Air transport is, therefore, for those goods.

(4) Certain goods like newspapers, periodicals or magazines are required to be transported by air, as delay in their despatch may cause either diminution of demand or may not be demanded at all.

(5) Air transport has immense speed because it has no physical obstructions, namely, mountains, rivers, buildings, cities, towns etc like road or railway transport.

(6) In times of natural catastrophy like flood or earthquake necessary goods for relief work can be transported quickly by air to the affected areas which may be inaccessible to other modes of transport.

(7) There are certain regions which cannot be reached by other means of transport on account of geographical or other reasons. For example, Tripura in Eastern India cannot be connected by other modes of transport. It can be reached only by air transport.

(8) Air transport has no track expense. But a large sum of money is required to be spent for the construction of roads and rail-tracks in the case of road and railway transports. In this respect it is similar to water transport which has also no track expense.

(9) It is suitable for the transportation of fragile goods. In this respect it is similar to water transport which is also suitable for fragile goods.

(10) An aeroplane is small in comparison with a train or a ship. Hence, air trips can be arranged conveniently within a short time.

Disadvantages of Air Transport :

The disadvantages of air transport are as follows—

(1) The important disadvantage of air transport is that it is very costly. At present, it is still more costly, as the price of the petroleum has become very high.

(2) It has restricted capacity of handling goods and that it cannot carry goods in bulk.

(3) Though increasing measures of safety have now been provided on account of improvement in technology, still it is very risky, as the inclement weather and the mistake on the part of the operators may stand in the way of safe navigation.

(4) Cheaper goods and the products likes coal, oil, etc. which are usually carried in bulk cannot be transported by air.

Indian Airways :

During the Second World War India made a rapid stride in air transport. With the cessation of war surplus aeroplanes were purchased by the private companies and they all started business in India. After partition of the country the Government of India felt the need for the development of the air transport particularly for defence purposes and for providing quicker means of transport. India has now developed many new industrial centres. Its vast areas along with the number of industrial centres provide a greater scope for the development of a network of air transport. The only impediment in the development of airways is the high price of imported petroleum. With the finding out of new petroleum mines in India it is expected that India will in near future depend less on imported oil and hence, the greatest bottleneck respecting high price will be removed. But despite this snag, with the rapid economic development and increase in the number of industrial centres and for defence purposes air transport has made a tremendous progress. Before the Second World War India had airways to the extent of 9,000 kms. only. In 1950 the air route mileage was increased to 36,000 kms. During third five year plan a sum of Rs. 55 crores was spent for the development of airport, training of personnel, research etc. The fourth plan earmarked a sum of Rs. 200 crores for purchasing new planes including jet aircrafts and for making arrangement for landing jet planes in the airports of Calcutta, Bombay, Delhi and Madras.

In 1953, Indian air transport was nationalised. Two Corporations, namely—Indian Airlines Corporation for internal air services and Air India International for international services—have been established. The I.A.C. has taken over the management and ownership of eight inland air services. The external routes of the operating private companies have been taken over by the Air India International.

India has now airports, airpasses and aerodromes in almost all its States. Efforts have now been made to extend air services to all the industrial centres and to establish airports in almost all the cities of India. The Air India International has now extended its external air services to all the important cities and industrial centres of the world.

India has also permitted certain foreign companies to operate in India. These are British Overseas Airways Corporation, Transworld Airways, Royal Dutch Airlines (KLM), Japan Airlines, Scandinavian

Airlines, Pan American Airways, Pakistan Airlines, Bangladesh Biman etc.

India has now four major airports, namely, Dum Dum (Calcutta), Santacruz (Bombay), Palam (Delhi) and Minambakam (Madras). Airports have also been established at Begumpet, Gauhati, Nagpur, Ahmedabad, Tiruchirapally, Satdarganj, Agartala etc.

India Airlines have various types of planes like Dakotas, Vikings, Skymasters, Viscounts, Herons, Boeing jets etc.

ADVERTISEMENT AND SALESMANSHIP

Importance and Purpose :

Modern system of production has become very much complicated. It now requires much time. Difficulties are also experienced in the matter of distribution of the products. Of course, improved system of transport and communication eases the process of distribution and has widened the market to a great extent It has shortened the distance between two countries. As a result, self-sufficient village economy has been shattered and international trade and specialisation have developed A product is now demanded not only in the local market but also across the national border and even all over the world.

Moreover, a businessman now produces commodities on a large scale for getting economies and reducing cost of production. Large scale production or mass production needs large scale selling or mass selling. Advertisement makes practicable the mass selling of products.

Advertisement is the art of informing the public regarding the existence of a product or of a want. While producing the commodity, a businessman is to create demand or market for his products, so that after production is completed, he can readily sell his products in the market. The market or demand is created by means of advertisement. It is the important function of advertisement.

Not only that, demand or market once created is to be maintained for smooth and continuous flow of production and distribution. Market has now become very much competitive. Various products of similar nature and quality are sold and every producer is trying to create markets for his products. Everybody is making relentless efforts for the shifting of the demand from one product to another. For all these, markets are to be maintained by means of continuous advertisement. A businessman even advertises for the products, the production of which has been suspended temporarily, so that the demand by this time is not shifted to other products.

Styles and fashions change from time to time, old products are rejected and new products are invited. Businessmen are struggling hard to conform to these tastes and fashions by producing new varieties of products. Sometimes, new varieties are introduced for **creating new styles and fashions**. New varieties of differents commodities are now introduced in the market and consumers' preferences are created for them by means of advertisement.

Another important significance of advertisement is **to make product differentiation.** The advertisement makes known to the public that the new product is different from other products. By this a trader creates consumers' preference for his products and enjoys monopoly in certain sectors of the market. That is why, pure competition is rarely found in modern market.

Advertisement educates the public about the various products sold in the market. A consumer knows through advertisement which of the products will be suitable for his purposes and he purchases commodities accordingly.

It also improves the buying habits of the general public by making known to them every new product introduced in the market. This improves standard of living.

Improvement in the standard of living increases the aggregate production. Increased production again creates favourable economy by providing employment opportunities. This augments total income which enables the creation of more demand and the growth of savings and hence capital formation.

Advertising is now a complicated affair since there are various modes of advertisement and each mode is dependent on the nature of the product and peculiarities of markets. Very often, it is delegated to experts. Different agencies are therefore, created for making advertisement. These agencies create experts and provide again employment to many.

Since advertisement is responsible for shifting of the demand from one product to another, it helps stabilisation of prices and improvement of performance standards.

It enables the producers to produce various commodities at a cheaper cost by means of mass production and mass selling. Hence the consumers can purchase those commodities at a cheap rate.

Lastly, it avoids middlemen by establishing a direct relationship between producers and consumers.

The **purpose of the advertisement** is, therefore, (1) to create market or demand for the products, (2) to extend the market, (3) to introduce new varieties of various products, (4) to create styles and fashions, (5)

make product differentiation for enjoying monopoly position and (6) to help continuance of the market once created.

Economics of Advertisement (Is advertising wasteful ?)

It is very often argued that advertising is wasteful. It serves no useful purpose, misleads the consumers and induces them to purchase commodities which are of bad quality. The qualities of the products are unnecessarily magnified and the general consumers are deceived.

Advertising also influences the emotion and interest of the consumers and their ultimate choosing of the products among the manifold varieties is also misled.

The serious objection against advertisement is that it increases the prices of the products. Businessmen spend huge sums of money for advertisement and the entire cost of advertising is passed on to the consumers in the form of higher prices. Some are of opinion that had there been no advertisement, the commodities could have been sold at cheaper prices.

Moreover, it is responsible for shifting the demand from one product to another or in other words, one producer or a group of producers snatches away the prospective markets of other producers by means of continued advertisement. Advertising thus helps the growth of monopolies.

Though some of the objections labelled against advertisement cannot be denied, yet the economic effects of advertisement are, sometimes, mis-understood. The following are the arguments in favour of advertisement—

1. The aim of the advertisement is to create market or demand for the products, to extend the market and hence to increase the sales volume. Otherwise, the products of the traders or producers cannot be introduced to the consumers, mass selling cannot be achieved and mass production cannot be effected.

2. Since market can be extended to a great extent and consumers are spread all over the world, it is not possible for an individual salesman to approach each one of them. Advertisement carrying the message of the products can educate each and every consumer living at the remotest corner of the world in respect of the utility of using those products.

3. Against the objection of increasing the selling price of the product due to expenditure on advertisement, it can be said that advertisement reduces the cost. Since advertising aims at mass selling of the products by means of extension of the market, it enables businessmen to effect large scale production. Large scale production reduces

the cost including cost of advertisement per unit. Cost of advertisement per unit reduces with the increase in sales volume which is achieved by means of continuous advertisement. It is said that advertising adds up less than one percent only to the total sale price of the product. Moreover, whether entire cost of advertisement can be included in the total cost depends on the elasticity of demand. If the demand for the product is inelastic, the entire cost of advertising can be added to the total cost. On the other hand, if the demand is elastic, the businessman cannot increase the selling price by adding to the cost of production the entire expenditures on advertisement. In that case the increased selling price will reduce the demand for his products and he will be compelled to adjust his output accordingly.

4. It does not cause waste of national resources by shifting demand from one product to another. Market for a product cannot remain restricted. It is changing and extending with the changes in tastes, fashions, styles, purchasing power, production methods and improvement in quality and trade practices. It, therefore, enables every businessman to create new demand or market for his products.

5. Though some advertisers mislead the general consumers by making false statement and induce them and influence their interest and desire, average businessmen in modern days can never take resort to such practices. For they know that they cannot keep their business reputation unhurt by deceiving some people for all time, a great number of people for sometime and a large number for all time.

6. By influencing the prevalent tastes, fashions and styles advertising helps in improving the standard of living of the average consumers. It creates new fashions and styles by enabling businessmen to introduce new varieties to the consumers.

7. Competitive advertisement encourages art and culture by necessitating businessmen to make their advertisement more attractive.

8. By continuous focussing of better quality products and enabling the uninformed consumers to choose right quality from a large number of articles, it drives out bad quality and sub-standard products.

9. Businessmen can also maintain their existing market and keep intact the demand for their products and can extend the market to a new horizon.

10. Consumers are also benefited, as the advertisement enables them to purchase better and standard quality at cheaper prices.

To sum up, it can be said that advertising is a useful adjunct to the modern business. It is now indispensable. A businessman in

modern days cannot think of achieving mass selling of his products without some sort of advertisement. He can appeal a large number of his customers by spending a small amount on advertisement. Advertising is, therefore, not wasteful. Rather, 'it pays to advertise'. Of course, unholy practices should be avoided, if we want to get benefit out of advertisement.

Media of Advertisement :—

Media of advertisement are the ways and instruments which a businessman avails himself for the purpose of appealing to the prospective customers. Media are many, namely, newspapers, periodicals, handbills, posters, circulars, neon signs, road side hoardings, radio television, cinema, etc. The selection of medium or media is dependent on certain factors, namely, nature of the product, extent of demand, types of customers, nature of the business and the cost of utilising such a medium. The following are some of the important media—

(1) **Newspapers**.—Advertising through daily or weekly papers has now become very popular. This is because of its wide circulation as almost all the people in every country now read newspaper. It can appeal, therefore, a large number of customers, though cost is moderate. Moreover, advertisement can be made at the appropriate time and place and can be adjusted in accordance with the need and importance of the appeal. At present, descriptive advertising containing a picture and a brief story is resorted to for the purpose of drawing attention of all types of customers and particularly those who are busy with their normal vocations. It is now a very effective medium particularly for articles which are used daily.

(2) **Magazines and Periodicals**.—These are also very effective but not for all types of articles. There are different types of magazines and the selection of the particular type is dependent on the nature of the product. Scientific apparatuses and articles used in laboratories can be advertised in science journals, books can be advertised in the magazines of arts and literature, machines and machine parts in the technical journals etc. There are certain periodicals which deal with various matters and they have generally wide circulation. Like newspapers, these periodicals can be utilised for advertising various types of articles. These are more advantageous than newspapers, as they are expected to make lasting appeal since these are kept for a longer period. Moreover, colour printing can be used and descriptive advertisement can be made.

(3) **Handbills**—This is not a very effective medium and the cost is also negligible. Generally, a paid-man unconcerned of the subject-matter of the advertisement is entrusted to distribute the handbills. Standing on a busy street corner he gives these bills to the passers-by. The persons who receive these bills do not show much interest. They take it in one hand and throw it away with the other.

(4) **Blotting, Date cards, Calendars**—Advertisement matter can also be printed on blotting papers, date cards and on calendars. These are more effective than handbills, as these are preserved for a longer period. Since these are used for a particular purpose, they can be utilised for making lasting appeal.

(5) **Posters**—Usually, the advertisement matter is printed in coloured ink on large pieces of papers. These posters are then pasted on the walls or boards placed on busy street corners. As the matter is printed in coloured ink, these are attractive and draw the attention of every passer-by.

(6) **Circulars**—Circular letters containing the matter of the advertisement are also issued to different persons to induce them to become customers. Addresses are usually obtained from telephone guide.

(7) **Hoardings, Neon Signs and Cinema Slides**—Hoardings mean the advertisement matter is painted in a big character and kept for display for a considerable period of time. Generally the boards displaying such matters are placed on the railway stations or on house-tops or on busy street corners or on play-grounds or on the entrance of an exhibition site. These boards showing the painted matter can be seen from a long distance and attract a large number of customers.

Likewise, boards with neon signs can also be placed in different places and these neon signs are very effective at night.

Cinema slides are also very popular now-a-days. Sometimes, a short film with a story clandestinely served is shown to attract cinema goers and to induce them to become customers.

(8) **Radio and Television**—These media are now growing popular in recent years in our country. Every Indian now perhaps listens to 'Vividh Bharati' programme of Akash Bani. The programme has been made attractive by providing popular songs. Different products are advertised in such a manner that the listeners can be attracted and induced to become prospective customers. Radio Ceylon is also dealing with the programme of commercial advertisement. This medium is utilised for both local and national markets. The advertisement is repeated for drawing attention, creating interest and stimulating desires of the listeners.

Television has been developed only in a few cities in our country. Even in those cities it is not utilised for commercial broadcasting. But this medium is popular in other advanced countries.

(9) **Exhibitions and Fairs**—These have become very popular at present. Exhibitions and trade fairs are now arranged in different places and various articles of several companies are displayed there. Other attractive programmes are provided to draw attention of different people. Even at present World Exhibition or trade fair is arranged for every five year for the purpose of enabling the participating countries to create export markets.

(10) **Delivery Vans**—Many firms now use vans for delivering goods to the customers. In both sides of the delivery van advertisement matter is painted or displayed in various colours. This type of advertisement on the delivery van can attract several people, as the vehicle moves along the road.

Selection of the Advertisement Medium :

There are several media of advertisement utilised for advertising various products. A particular medium is not suitable for all types of articles. Therefore, selection of a particular medium is very important. To achieve a desired result, a particular medium is to be chosen. The following points may help in considering a suitable medium—

(1) **Nature of the Product**—Selection of a medium is dependent to a great extent on the nature of the commodities. There are different products, namely, perishable, durable, consumers' goods and producers' goods. Perishable and consumers' goods are generally advertised in newspaper, widely circulated magazines, radio and by cinema slides. Technical journals, special pamphlets and direct appeal can be chosen for producers' goods and durable products like machines.

(2) **Extent of the Market**—Selection is also influenced by the extent of demand for the product. If the demand for a particular product is restricted to a local market, it can be advertised in local papers. On the other hand, if the demand is world-wide, magazines and periodicals having world-wide circulation can be chosen as medium. Those commodities can also be displayed in world fairs and exhibitions for creating export markets.

(3) **Nature of the Customers**—A particular type of commodity may be demanded by a section of the people or it may be admired by the general mass. Cigarettes are demanded by the smokers only, whereas clothes and readymade garments are required at every home.

Nature of customer is, therefore, an important consideration for choosing a medium. Moreover, selection is also dependent on the types of customers, namely, housewives, students, workers, etc.

(4) **Tastes, Fashions, Cultural Standard and Ability of the Customers**—Different products are to be advertised through various means to attract several customers. Customers belonging to the middle class may neglect hand-bills but if the same advertisement is made in literary journals or through cinema shorts, they are attracted to it. Attention of the cutomers having different cultural standards and financial abilities can be drawn through judicious selection of media.

(5) **Purpose of the Appeal**—The purpose of the appeal may be to creat demand for a new product or to extend the market of an existing product. In any case the media of advertising will vary in accordance with the objectives of advertisement.

(6) **Extent of circulation**—Selection of a medium is also guided by the extent of its circulation. A magazine which is also circulated beyond the national border is suitable for advertising a product for which export market is being sought. On the other hand, products which are demanded locally can be advertised in local newspapers.

(7) **Cost of Advertisement**—Cost is another important element influencing the selection of a medium. A particular medium may be costly and at the same time unable to increase sales volume immediately. This type of medium is not suitable for a product for which immediate action is necessary. On the other hand, if a medium is not costly and if it can, at the same time, boost up the sales to a greater degree, it becomes useful for advertising a majority of products.

(8) **Lasting Influence of the Appeal**—A medium which can influence or induce prospective customers for a longer period of time may be preferred. Generally, a magazine is suitable for this purpose because of its lasting effect, as it is kept for a longer period.

(9) **Dependability of Media**—Hand-bills may not be dependable but advertisement in a reputed journal may attract a good number of prospective customers. Hence, before choosing a medium it is to be determined how far it is dependable as a means of advertising.

Scientific Advertisement

The main aim of an advertiser is to increase sales by resorting to advertising at a minimum cost. In other words, he wants to secure maximum benefit at a minimum cost. In a competitive market maximum increase in sales cannot be achieved by adhering to old or traditional method of advertising. A new approach in this respect is to be made. This is known as Scientific Advertisement.

It deals with the careful analysis of the psychology of buying public, determines after systematic observation the method of approach to different sections of the consumers selects a particular medium or media so that the entire market can be covered successfully. Then after careful study of relevant information and data collected from the market, a conclusion is arrived at. The result of the study is then applied to planning an advertising campaign. The conclusion of the scientific study is then compared with the actual result. Deviations, if any, are then looked into and the reasons for deviations are carefully studied to modify the method of advertising accordingly.

Scientific Advertisement embraces three most important aspects. These are—

(1) Keying in Advertisement :

It means that while advertising for the product, the result is assessed or known by the adoption of a particular process. Every businessman tries to maximise his profit by effecting maximum selling of his products. Increasing sales can be achieved by means of successful advertisement. There are different ways and media of advertisement. An advertiser is unable to try all the ways and media, as in that case cost involved will be very high. He selects a particular medium or method which can serve his purpose best. Others are suspended. This can be done by keying the advertisement.

The following are the different methods of keying—

A. **By mentioning different addresses in different newspapers**—By scrutinising enquiries in respect of the product, it can be determined, advertisement in which paper results in maximum enquiries. Advertisement of the wares in that paper is continued and others are stopped.

B. **By advertising the products of different departments in different papers**—While enquiries come for the products of different departments, the advertiser can find out which paper is suitable for advertising the product and of which department.

C. **By furnishing a coupon or blank order form along with the advertisement**—By this method, a request is made to all the prospective customers to send the coupon along with their enquiries or they may be requested to send the blank form, duly filled in, along with their orders for goods.

D. **By requesting the prospective customers to mention the source of information in respect of the product or service**—This method helps the trader find out which source or paper can serve his purpose in a better way.

(2) **Follow-up-System :**

Simply by advertising in the different papers or following different ways maximum benefit cannot be obtained. Other methods are to be followed.

Follow-up-system is one of these methods. It means that enquirers are to be approached by repetitive appeals, until they become customers. A book is kept for recording the names of the enquirers and their enquiries so that they may not be lost sight of. Usually follow-up letters are sent out to the enquirers until and unless satisfactory result is achieved. These letters are prepared in a standard form.

Whenever an enquiry comes, it should not be replied once only. Until the enquiry is converted into an order the trader should approach the enquirer repetitively by following this follow-up system. If after a reply to an enquiry no response comes from the enquirer, another correspondence should be sent to him. Even after this nothing comes from him, the third letter is forwarded to him and in this way every enquiry is followed until it gives a satisfactory result.

(3) **Market Research :**

Market research should also be undertaken to achieve best result Enquiries are to be directed in respect of the dealers as to why they are selling the particular product, the place of the product in the industry, the position of the product in the competitive market, sales methods and policies, psychology of the different sections of the buying public, reputation of the company, possibility of introducing new varieties and host of other problems.

Market research also embraces **dealer research.**. Questionaires are to be sent to different dealers enquiring as to (a) why they are selling the particular product, (b) why they prefer the particular product to other products, (c) the varying sales in different periods of time, (d) causes of such variation, (e) amount of maximum sales during a certain period of time, (f) what measures can be taken to increase sales and (g) whether any new variety can be introduced.

Consumer research is another important aspect of market research Questionaries are, similarly, sent to different consumers enquiring as to (a) why they prefer the particular product to others, (b) the amount of purchase during a fortnight or a week or a month, (c) the amount usually spent by them on the particular product, (d) their average monthly incomes, (e) the benefit they derive from using the product and (f) whether they need any improvement in respect of the product

All these research activities may enable a producer or a trader to assess his competitive strength in the market, demand for his product

to know in which areas or among which sections of the consumers sales activities are to be given impetus, to select a particular medium of advertisement, to enquire whether any new variety can be introduced and to foresee the trends of the market.

Salesmanship

Meaning and Importance

Salesmanship is defined as **the art of inculcating certain belief or idea in the consumers and convincing them about the desirability of having certain articles in preference to or replacing others.** 'Selling' does not simply signify salesmanship. Selling means transfer of ownership of goods from the owner to the buyer. Salesmanship signifies selling plus something else. It refers to the skill in selling goods. It creates demand for the products by influencing consumers' choice and inducing different persons to become prospective customers. It influences consumers' preferences and choices by putting before them certain arguments and convincing them about the seller's point of view. Salesmanship, therefore, refers to the technique of selling out an idea and not merely the goods.

It is the duty of a salesman to perform this onerous task of influencing consumers and persuading and inducing them to purchase the goods. There are two types of salesmen, namely, Creative or Field Salesmen and Service Salesmen or Sales Assistants. Salesmanship denotes what a creative salesman does. His task is, therefore, very difficult and hence requires training and education. The function of a service salesman is to respond to the actions of customers. He simply sells articles at the counter.

Sale is an important basic function of a business enterprise, be it commercial or manufacturing. Other functions, namely, purchasing, producing, accounting etc. rotate round this basic activity. Other activities are cropped up simply because of sales function. In other words, an association is recognised as a business organisation, if it is engaged in selling operation.

The tendency of the modern business is to grow larger in size. This tendency has been grown on account of technological advancement and desire for securing certain economies to reduce cost. Large scale production is, therefore, effected for reducing cost and maximising profit. But large scale production cannot be effected unless there is the scope of mass selling of products. Mass selling can be achieved by proper advertisement and effective salesmanship.

The need for large scale production and mass selling has also complicated selling operation. This is due to, firstly, diverse products are being manufactured and sold for satisfying human wants. That is why, by means of advertising and salesmanship product differentiation is resorted to. It is the main task of a salesman to inculcate a belief in consumers by repeated appraoches and appeals that his product is better than that of others. Secondly, market has been expanded and extended beyond the national border. In other words, international trade has been developed. Thirdly, there are different types of consumers with varying tastes, fashions, habits, cultural standard and financial abilities.

Moverover, competition has now become severe. Selling expenses have also been increased for this reason and for transporting goods to distant markets.

For all these reasons effective salesmanship is now necessary, as it aims at mass selling of products at the minimum cost.

Essential Qualities of a Salesman :

Sale is an important activity in a business. Survival of a business enterprise is dependent on the adequate volume of sales. Selling function is entrusted to a team of salesmen. The task of a salesman is very difficult. He is to persuade different persons and convince them about the necessity of having certain articles in preference to others. The major part of this onerous activity is carried out by an ordinary salesman. A salesman, therefore, must have certain essential qualities by which he can attract consumers of different tastes and habits and inculcate a point of view in a good number of prospective customers. Some of these qualities are inherent but others are to be acquired by education and training.

The following are some of the important qualities a salesman should possess—

1. **Pleasant Appearance**—A salesman must have smart, attractive and pleasing appearance. Good appearance is an asset to him. It will help him in selling out his idea or view-point to persons of different tastes, habits and temperament, as a pleasant appearance is likely to create favourable impression on the minds of average buyers. For smart appearance a salesman need not possess a robust health. It depends, of course, to a great extent on cleanliness and smart dress.

2. **Sound Health and Good Habits**—He must also possess a sound health, as he is required to work hard. He is to work outside the office and hence required to travel extensively from one place to another for selling the products. To withstand this hardship he should

acquire a good health and develop good habits for the maintenance of his sound physique.

3. **Self Confidence**—This is another important attribute of a salesman. He is required to remove various obstacles in creating demand and selling products. He is to create a good impression upon the minds of the average buyers and overcome their resistance by persuading them and convincing them a viewpoint and ultimately induce them to become buyers of articles he is dealing in. It is necessary, therefore, that he should perform this difficult task with confidence and determination.

4. **Pleasing Personality**—This rare and inherent quality helps much a salesman in winning the confidence of different persons and convincing them about a particular idea. A salesman with personality can attract people and influence consumers' preferences and choices. Once he can do this, the prospective customers will then be prompted to take action. Politeness, good manners, good tastes, capability of establishing a point of view by putting cogent arguments are some of the requisites for developing personality.

5. **Intelligence and Power of Observation**—He must be intelligent enough to study quickly the tastes, habits and temperament of different persons. He must have the power of observing carefully different characteristic attributes of the prospective customers. All these qualities may help him a lot in winning the confidence and influencing the choices of the buying public.

6. **Politeness and Pleasing Manners**—A salesman is required to work hard, meet and convince a great number of persons and influence them to become customers. In doing so, he must not show repulsive attitude, enforce any argument and induce persons by tricky and clandestine methods. Contrary to that, he should behave with them politely and attract and convert them into customers by his pleasing manners.

7. **Patience and Perseverance**—He is required to meet innumerable persons of different aptitudes and temperament. Sometimes, it becomes very difficult to convince a person about the necessity of owning an article on account of his firm conviction in respect of the usefulness of other products. In that case he should proceed with patience and show his perseverance in convincing him gradually. He must not use harsh words and behave with him impolitely.

8. **Affability**—A good salesman should be sociable and friendly with everybody. He must have the capability of mixing freely with anybody and everybody. He must have wide acquaintances to secure good business. If he is possessed with polite manners and if he is a talker, he can easily win friends.

9. **Honesty and Trust-worthiness**—He must be honest, sincere and dependable. He must not take resort to any dishonest means to increase the volume of sales. He should deal with his customers with so much sincerity and honesty every time he meets them that his trust-worthiness is never impaired. He should remember that business reputation depends much on his honesty and trust-worthiness.

10. **Cheerfulness and Good Voice**—He must be cheerful all the time he meets his people and should not show remoarseness in dealing with the customers. He should also be a good talker and for that purpose he must have a good and pleasing voice.

11. **Knowledge of the Product**—He must have a sound knowledge of the product he is dealing in. If the article is composed of several parts, he must have thorough knowledge of each component. This is essential, otherwise he cannot convince his customers about the usefulness and utility of the product.

12. **Education and Training**—He must have good education so that he can express himself clearly in English and other regional languages. Moreover, a good education will help in studying the tastes and cultural standard of the different members of consuming public. He must also have good training in salesmanship. Of course, his association with the job and experience will, no doubt, teach and train him gradually in salesmanship.

WAREHOUSING

Meaning :

Warehousing means keeping or preserving goods for safe custody in a godown or warehouse to enable the producer or trader to supply them to the consumers at the proper time. It removes the hindrances in respect of time by preserving the merchandise during a period when they are not needed and releasing those articles at the time when they are demanded for consumption. It creates also time utility for goods by such preservation.

Functions of warehouse :

The following are the important services rendered by a warehouse—

(1) It provides storage facilities to manufacturers who can store the raw-materials in a godown for getting regular supply of them at the time of manufacturing. Similarly, they can keep the finished products for selling at a time when they get better price for them.

(2) It facilitates loading and unloading operations by enabling the trader to keep the goods in a warehouse after unloading them from a ship or before placing them on board a vessel.

(3) A trader is immensely benefited by storing the goods at different places of consumption. By this he can readily supply the goods to the consumers without incurring any further expenses.

(4) If an importer is not in a position to pay for import duties he can keep the goods in a warehouse. Thereafter, he can take delivery of those imported goods either whole or part of the whole lot as and when he pays for the import duty.

(5) It offers facilities for the transfer of ownership of goods without effecting actual delivery. The ownership of goods can be transferred by endorsement and delivery of warehouse warrant. A **warehouse warrant** is a document of title to goods issued by the owner of the warehouse stating therein that the goods have been kept by him on behalf of the owner and he undertakes to deliver them to any legal holder of the warrant or lawful owner.

(6) It helps in preventing the violent fluctuation in prices by enabling the trader to store the merchandise at the time of bad market and releasing them when the market improves.

(7) It facilitates a trader or a manufacturer to get loan by hypothecating the goods stored in a warehouse. For this purpose, the warehouse warrant can be utilised as a security.

(8) It makes the goods marketable by providing facilities for packing, grading, conditioning etc.

(9) At present, it makes arrangement for preserving perishable commodities by providing refrigeration or humidification facilities.

(10) It secures economies in transport charges by delivering at a time different lots of goods belonging to several owners.

(11) It offers tremendous facilities for re-export trade by enabling the importer to keep the goods in a warehouse pending their re-exportation to other countries.

(12) It provides marketing facilities by allowing inspection of the goods by the prospective buyer.

Bonded Warehouse :

A Bonded Warehouse is established under a bond with the customs authority for safe keeping of the dutiable goods till the payment of the import duty. It undertakes to release those goods, when the import duty is paid. It is kept under strict vigilance of the customs officials.

It offers the following important services—

(a) It offers facilities to the importer to keep the goods in the warehouse, if he does not pay for the import duty. He can take delivery, when he is in a position to pay for the import duty.

(b) An importer need not pay the full value of the import duty at a time. He can take delivery of a part of the goods by paying proportionate import duty.

(c) It provides valuable services to the re-exporter who can store the goods in the warehouse pending their re-exportation. He need not take the trouble of paying for import duty and claiming refund of the same at the time of re-export of the imported goods.

(d) It makes the goods marketable by providing facilities for packing, grading, sampling, blending etc.

(e) It also renders important services to the exporter who can keep the goods in this type of warehouse and avoid the trouble of paying huge amount of excise duties and afterwards claiming refund of the same. Excise duties levied on goods meant for export are refunded to the producer.

(f) A trader can get the bank credit on the security of the goods kept in a bonded warehouse.

Warehousing Facilities in India:

Warehouses render valuable services both in the agricultural and industrial sectors by arranging for storing and marketing of agricultural produce, industrial raw-materials and finished products. Hence, the importance of establishment of adequate number of warehouses and provision for increasing storing facilities in India need not be over-emphasised. But unfortunately warehouses and storing accommodations are not adequate in India. Till recently small farmers did not find any scope for keeping their produce for sometime for the purpose of getting better prices chiefly due to inadequate storing accommodation. The position in the urban areas was also not better.

Warehouses in India have been established both in the private and the public sectors. Warehouses owned by individuals have been established mainly for the purpose for catering to individual needs of storing of agricultural produce and industrial products. Instances of establishment of warehouses as partnership firms, private and public companies and co-operatives are also witnessed. But these warehouses could not provide adequate storing facilities and accommodation as large capital investment in the private sector is not readily forthcoming.

Considering this inadequate warehousing arrangement in our country, the Rural Credit Survey Committee recommended for the setting up of National Co-operative Development and Warehousing Board and opening up of two funds, namely. National Co-operative Development Fund and National Warehousing Development Fund for subscribing to the share capitals of All India Warehousing Corporation and State Warehousing Corporations and providing financial accommodation to them.

Accepting the recommendations of the Rural Credit Survey Committee the Central Government passed in 1956 Agricultural Produce (Development and Warehousing) Corporations Act and the National Co-operative Development and Warehousing Board was set up in the same year. In 1963 the National Co-operative Development Corporation was established replacing the N.C.D. & W. Board. The corporation "has been responsible for promoting, through co-operative societies, planned development of marketing, processing and storage of agricultural produce, distribution of farm requisities and for providing financial assistance for these activities through the State Governments." The corporation helped in various ways in expanding storage capacity from 7·5 lakh tonnes in 1961-62 to 27 lakh tonnes in 1969-70.

A Central Warehousing Corporation was established in 1957 with an authorised capital of Rs. 20 crore divided into 2 lakh shares of Rupees one thousand each. This corporation is to implement policies of the Government in respect of warehousing arrangement. Its main functions are to acquire and construct warehouses near the important junctions, railway stations and ports, to manage and run warehouses established by it and to subscribe to the capital of state warehousing corporations and to provide financial assistance to them. The receipts issued by corporation sponsored warehouses are treated as negotiable instruments and the farmers and traders can obtain bank credits on the security of these receipts.

Several State Warehousing Corporations have been set up in different states with an authorised capital of Rs. 2 crore to acquire and construct godowns in rural areas and subdivisional towns, to run and manage them and to provide financial accommodation to them.

During Second Plan it was envisaged that the central corporation would set up 100 warehouses all over India and several state corporations would establish 250 warehouses in their respective states. In the Third and Fourth Plan period emphasis has been made to increase the storage capacity.

Customs and Excise

What is Customs Duty?

Customs duties refer to import and export duties levied by the state on certain commodities.. Import duty is imposed on certain commodities when they are brought into the national boundaries of a country. On the other hand, export duty is levied upon commodities when they are sold and sent outside the country.

The purpose of levying customs duty is usually threefold, namely, for increasing the revenue of the State, for protecting home industries from foreign competition and for discouraging export or import. When the **import or export duty is levied simply for collecting revenue, it is known as Customs Tariff..** On the other hand, **when import duty is imposed on foreign articles, it is known as Protective Tariff.** Export duty is imposed simply for collecting revenue and not for protection. Protection here means protection of foreign industries which cannot be desired by any country. Sometimes, these are levied for discouraging export or import. Protective duties do not yield much revenue. Since they are very high, imports or exports are dampened.

Protective import duty is levied for providing impetus to the development of home industries. Foreign commodities are sold in India at low prices because of greater efficiency of the developed countries to produce things at a low cost or for creating demand in the Indian market. India being a developing country cannot produce commodities at such a low cost. Hence import duty is imposed on foreign commodities imported in India for increasing the competitive strength of the Indian products.

Again, these duties are collected according to either **value or quantity. When the duty is levied according to the value of the commodities, it is known as Ad velorem duty.** On the other hand, **if it is collected having regard to the quantity only, it is called Specific duty.**

What is an Excise Duty?

An excise duty is a duty levied by the state on commodities which are produced and consumed within the country. For example, excise duty is now levied on textile, spirit, sugar etc It may also be levied on things other than commodities, namely, entertainment taxes, patent duties etc. Sometimes, duties are imposed on commodities by issuing licences, namely, excise licence to sell bear, wine, spirit, opium etc.

The sole purpose of imposing excise duty is revenue. It cannot be imposed as protective duty since that means protection to foreign

industries. When excise duty is imposed on commodities which compete with foreign articles sold in India, import duty is levied simultaneously on foreign commodities for increasing competitive strength of the home products. Since excise duty is levied simply for collecting revenue, it is imposed on widely consumed articles or commodities having inelastic demand, that is, necessary products like salt, sugar, textiles etc.

Drawback

For encouraging export Government of a country always insists on producing commodities at a low cost. Generally, therefore, excise duty and customs duty are not levied on commodities which are produced mainly for export. Very often a commodity is consumed locally and at the same time exported to other countries. In that case excise duty is levied when it is produced but when the commodity is exported, excise duty is refunded. This refund of duty is known as **Drawback.** Refund of import duty is also noticed in the case of re-export trade. Import duty is collected when commodities are imported but the same is refunded when re-exported to other countries. **Refund of excise duty is known as Excise Drawback, whereas refund of customs duty is called Customs Drawback.**

In India, at present, for encouraging export, excise duty levied on industrial raw-materials is refunded when the finished products manufactured out of those dutiable raw-materials are exported. Similarly, import duty levied on essential raw-materials is refunded when the finished products made from these imported raw-materials are exported.

Bounty and Subsidy :

Bounty is a financial aid granted by the Government to a particular industry or an exporter for the purpose of increasing competitive strength in foreign market.

Subsidy is also an annual financial aid given by the Government to industries having national importance or the development of which is essential in the national interest.

Both are government grants but bounty confers benefit to a particular industry whereas subsidy is given for general interest of the nation.

Questions

Essay Type :

(1) Discuss the role of Bank for the economic development of a country.

[Ans. Services of Banks for the development of Trade, Industry and Commerce]

(2) Discuss the functions of a Commercial Bank.

[Ans. Functions of Commercial Bank]

(3) Discuss the functions of a Public Sector Bank.

[Ans. Purposes and Functions of Nationalised Banks]

(4) How many types of Deposit Accounts are opened by a Bank? Discuss how they are operated.

[Ans. Different Types of Deposit Accounts]

(5) (a) Explain the nature of current Deposit Account, Savings Deposit Account and Fixed Deposit Account of a Bank.

(b) What is meant by Public Sector Bank. [H. S. 1978]

[Ans. Different Types of Deposit Accounts—Public Sector Banks]

(6) (a) What is a Scheduled Bank?

(b) Indicate the principal services rendered by commercial banks to business. [H. S. 1979]

[Ans. Different Types of Bank—Services of Banks for the development of Trade, Industry and Commerce]

(7) Discuss the importance of Insurance in the business world.

[Ans. Importance of Insurance in Modern Business]

(8) Discuss the importance of Fire and Marine Insurance.

[Ans. Importance of Fire Insurance—Importance of Marine Insurance]

(9) What are implied warranties of Marine Insurance? How many types of Marine Insurance policies are found?

[Ans. Implied warranty in Marine Insurance—Different Types of Marine Policies]

(10) Discuss the important clauses of a Marine Insurance policy.

[Ans. Important clauses of a Marine Insurance policy]

(11) (a) Elucidate the principles underlying General Insurance relating to business.

(b) State what are meant by Insurance policy and claim. [H. S. 1978]

[Ans. Essential conditions or principles underlying different types of General Insurance—Insurance Policy and Claim]

(12) Discuss what you know about the importance and functions of Transport.

[Ans. Transport—Importance and Functions]

(13) Discribe the comparative suitability of Rail. Sea and Road for transport of coal from Calcutta to Madras. [H. S. 1978]

[Ans. Advantages and Disadvantages of Road Transport. Railway Transport and Water Transport]

(14) Discuss what you know about the importance and purpose of Advertisement.

[Ans. Advertisement and Salesmanship—Importance and Purpose]

(15) Is advertisement wasteful ?

[Ans. Economics of Advertisement]

(16) What are media of advertisement ?

[Ans. Media of Advertisement]

(17) How do you know the effects of advertisement ?

[Ans. Scientific Advertisement]

(18) Discuss what you know about the Scientific Advertisement

[Ans. Scientific Advertisement]

(19) What is Salesmanship ? What are the essential qualities of a salesman ?

[Ans. Salesmanship—Meaning and Importance—Essential Qualities of a Salesman]

(20) What is Warehousing ? What economic Functions are rendered by warehouses ?

[Ans. Warehousing—Meaning—Functions of Warehouse]

Short Answer Type :

(1) What are merits and demerits of Road Transport in India ?

[Ans. Advantages and Disadvantages of Road Transport]

(2) What are the advantages and disadvartages of Railway Transport ?

[Ans. Advantages and Disadvantages of Railway Transport]

(3) Distinguish between Road Transport and Railway Transport.

[Ans. Distinction between Road Transport and Railway Transport]

(4) Discuss the merits and demerits of water Transport and Air Transport.

[Ans. Advantages and Disadvantages of Water Transport and Air Transport]

(5) (a) Analyse the principle objects of advertising.

(b) Explain the meaning and importance of salesmanship.

[H. S. 1978]

[Ans. Advertisement—Importance and Purpose—Salesmanship—Meaning and Importance]

(6) What is meant by Advertisement? How would you justify large expenditure on advertising for the goods by a manufacturer.

[Ans. Advertisement—Importance and Purpose—first two paras—Economics of Advertisement]

(7) (a) What do you mean by General Insurance?

(b) Explain the significance of policies and claims in General Insurance.

[Ans. Different Types of Insurance—General Insurance]

(8) How are claims in Marine Insurance settled?

[Ans. Settlement of claims in Marine Insurance]

(9) How are claims in Fire Insurance settled?

[Ans. Settlement of claims in Fire Insurance]

(10) Discuss briefly the procedure of taking the Fire Policy.

[Ans. Procedure of Taking Fire Policy]

(11) **Write Short notes on**—(a) Bottomry and Respondentia Bonds (b) Salvage (c) Jettison (d) Bonded Warehouse (e) Customs Duty (f) Excise Duty (g) Drawback (h) Keying in Advertisement (i) Market Research (j) Workmen's Compensation Insurance (k) Fidelity Insurance (l) Burglary Insurance (m) Employees State Insurance (n) Charter Party (o) Railway Receipt.

Objective Type:

(1) From which Deposit Account of a bank money cannot be withdrawn before the expiry of a certain period and why?

(2) From which Deposit Account of a bank money can easily be withdrawn and why?

(3) Give five instances of services rendered by bank for depositors.

(4) Which types of Insurance are normally effected in a business concern?

(5) If the production of a commodity is temporarily stopped should a businessman stop advertising for the product? If not, why will he continue the advertisement?

(6) For illilerate persons which media of advertisement should a businessman select?

CHAPTER—III

FORMS OF BUSINESS UNDERTAKINGS

Sole-proprietorship Business

When a business is owned and managed by a single person, it is known as Sole Proprietorship business or Sole Trading concern. It is still found in modern business world where large-scale joint stock companies are preferred. Business concerns requiring personal skill or producing jewellery or artistic goods are generally established as sole proprietorship concerns. One man-shop is also found at present where single proprietor does everything.

The chief features of sole trading concern may be summarised as follows—

1. Its **formation** is very easy and at the same time less expensive. Any one can at any time form this type of business as legal formalities are not required to be observed.

2. **Capital** is supplied by the sole proprietor. He may invest his own capital or borrowed capital.

3. The **liability** of the business is unlimited. Not only the business properties but also the personal belongings of the sole trader are liable for the debts and liabilities of the business.

4. Sole proprietor himself is responsible for the **management** of the business. Very often he manages the business with the help of salaried assistants.

5. Affairs of the business are **controlled** by him and business decisions are also taken by him.

6. Since there is no one to share the **profit,** the entire profit is enjoyed by him.

7. It has no **legal entity.** Sole proprietor and his business are not separate persons in the eye of law.

8. It is very often organised on a small scale as a limited capital stands in the way of its becoming large scale one.

9. Sole proprietor bears all the **risks and uncertainties** of business. There is none to share the risks of business.

Advantages

The following are the advantages of sole proprietorship business—

1. The most important advantage of this type of business is that its formation is very easy and not very expensive.

2. Although much capital cannot be invested by the sole proprietor, he can borrow a large amount of capital as the liability is unlimited.

3. Since the sole proprietor manages the business and controls all the affairs, direct relationship can be established between himself and his employees and customers. He can pay more attention to the grievances of the workers and he can supply goods according to the tastes and fashions of his customers.

4. Efforts and rewards are perfectly matched in this type of business. Efficient management can bring for him more profit.

5. It has much flexibility and can adjust itself quickly with the changing market conditions.

6. Since business information can be kept secret, its strength in the competitive market may be increased.

7. It provides a way of living and a training ground to ordinary businessmen.

8. As retail business is very often established as a sole-proprietorship business, consumers can buy essential commodities needed every day from this business.

9. Since the sole-proprietor controls all the affairs of the business, he can eliminate wastages and reduce cost.

10. Many persons do not like to earn their livelihood as an employee in any business. They prefer independent living. To them sole-proprietorship business is a bliss.

Disadvantages

The following are the disadvantages—

1. Limited supply of capital stands in the way of its becoming large scale business. Although he can borrow more capital due to unlimited liability, actually his borrowing power is limited as he cannot provide adequate security.

2. There is again little scope for the expansion of this type of business as managerial capacity of the proprietor is limited.

3. Since it is very often organised on a small scale, economies of large scale production cannot be secured.

4. It also suffers from instability as the business is closed down at any time on account of sole proprietor's disability to continue it.

5. Unlimited liability is another barrier to the expansion of the business.

6. The liability of the sole-proprietor is unlimited. It means that not only his business properties are liable for meeting debts and liabilities of his business, his personal properties are also liable.

Joint Hindu Family Business

Joint family business is very often found among the hindus in India. It is known as Hindu Joint Family Business. All the members of the family are the owners of the joint family business. But this business is not set up on the basis of agreement among the members of the family. All the members become the owners of the business by dint of their birth in the family. **When a business is set up by the members of a hindu joint family under their joint ownership which has been acquired by virtue of their birth in the family is known as Joint Hindu Family Business.**

There are two systems of inheritence in hindu law, namely, Mitaksara and Dayabhaga. Mitaksara system is followed in all regions of India excepting West Bengal and Assam where dayabhaga is prevalent.

According to Mitaksara system when a baby is born in the family, he becomes a coparcener of the family properties. Grandfather, father and grandson all become the joint owners of the family properties. So if this joint family owns any business, all members are deemed to be its members by virtue of birth in the family. Hindu Succession Act of 1956 now allows female members to become the owners of family properties. Hence, it is now clear that joint family business can only be set up under mitaksara system.

Father is the sole owner of family properties under dayabhaga system. Son and grandson cannot become the owners of family properties. In this case if the father sets up any business, he is deemed to be the sole owner of the business. Hence, under dayabhaga system joint family business cannot be established. But if the father allows members of his family to become the owners of family properties or business, a joint family business can be set up in this system also.

Features of Joint Hindu Family Business

The following are the important features of joint hindu family business—

(1) The eldest member of the family or father is the regarded as the karta or manager of this business. He manages all the affairs of the business. He formulates plans and policies and takes all decisions. Other members are not allowed to participate in the management. They cannot claim also their participation in the management of the business.

(2) Karta controls all the affairs of the business and he can only receive incomes and pay for all expenditures.

(3) The liability is unlimited in this business. But karta has only unlimited liability. The liability of other members is limited to their interests in the joint property.

(4) Members have the right to sue for the partition of the family holdings or properties. But they cannot claim an account of past profits when they sever their connections from the family business.

(5) Karta assumes all liabilities and responsibilities in respect of the business. He enters into contract, takes loan by mortgaging properties and realises debts. But he cannot relinguish any debt.

(6) Karta is all powerful in business. He can mortgage the business; he can sell the business; he can even close down the business.

(7) The profit of the business is kept in the custody of karta. Profit is not shared by the members of the family. Members have also no definite shares in the profit of the business. When a member dies, the shares of the surviving members increase. On the other hand, when a new member is born, their shares decrease.

Advantages :

The following are the advantages of joint hindu family business—

(1) Members of the family excepting karta or head of the family enjoy certain advantages in this business. The liability of karta is unlimited but the liability of other members is restricted to their interests in the family properties or business.

(2) Other members can get income from the family business though they are not allowed to participate in the management of the family business.

(3) other members of the family can increase the joint family income by accepting jobs or doing business elsewhere if they do not participate in family business.

(4) If the members of the family participate in the family business, they can be placed to different jobs according to their ability. This helps the business to secure the advantages of division of labour.

(5) Members of the family can also enjoy the merits of insurance. If a member dies or is permanently incapable of earning his income, other members can look after his widow, sons and daughters.

(6) The younger members of the family can get wisdom in respect of the business from the elders and in this way they can learn many things about the business.

(7) Business is not dissolved easily. It is not closed down on the death of karta or head of the family or any member of the family.

Disadvantages :

The following are the disadvantages of joint hindu family business—

(1) Business cannot secure adequate loans to be invested as capital as the liability of Karta is unlimited. This stands in the way of expansion of the business.

(2) Only Karta manages all the affairs of the business. This feature rouses among other members aversion to work and idleness.

(3) Only a few of the members participate in the management of the business. But all the members share the incomes of the business. At this the participating members feel discouraged to manage the affairs of the business efficiently.

(4) In this business Karta becomes all powerful. Other members cannot perform their duties independently. They have to do their duties according to instructions given by Karta. This may bring in conflict between Karta and other members of the family.

(5) There is no definite basis of the distribution of family income If a member dies, individual share increases and when a member is born individual share decreases.

(6) A member cannot claim an account of past profits when he severs his connection from the family business. This may hamper coparcenary interest.

(7) Business may be dissolved if conflict arises among the members for various reasons.

PARTNERSHIP

Partnership Act defines partnership as the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.

If we analyse the above definition of partnership, we will find that a partnership must have the following essential elements—

(a) There must be a contract. 'Relation between persons' means contractual relation must be established. Partnership does not arise from status as it is in the case of Joint Hindu Family business.

(b) There must be a business and the object of the business must be to make profit. Business is, of course, recognised by the fact that whether it makes profit or not.

(c) The profits of the business must be shared between persons who have entered into partnership agreement.

(d) There must be minimum two persons and maximum twenty persons and in case of banking business the maximum number is ten. The Partnership Act does not provide any thing about the maximum number of partners. It is provided in the Companies Act that if in an unregistered association the number of members exceeds twenty, it must be registered under the Companies Act.

(e) The business may be carried on by all the partners or any one of them on behalf of all the partners. This element means that a partner has the right to take part in the management of the business and can bind the other partners by his acts in the normal course of the business of the firm. A partner is an agent of other partners.

The persons who enter into agreement and form partnership business are known as 'partners' and their organisation is called 'firm'.

Features of Partnership :

The following are the important features of partnership business—

(1) **Formation.** Two or more persons can easily form the business and without much expense. Legal formalities are also not required to be observed for its formation.

(2) **Capital.** Partners contribute capital to the business. It is not necessary that all partners have to contribute capital [illegible]. Normally a person becomes a partner by contributing capital. Besides partners' own capital it is also [illegible] from different [illegible] and invested in the business.

(3) **Liability.** Liability of partners is unlimited. It means that not only business properties are liable for the [illegible] debts [illegible] of the firm, partners' personal properties are also liable. [illegible] liability is joint and several.

(4) **Management.** All partners are entitled to take part in the management of the business. Any one of the partners can [illegible] the business on behalf of others. A partner is an agent of other partners. It means that a partner can bind other partners [illegible] in the normal course of the business of the firm.

(5) **Control.** Partners who take part in the management [illegible] control different affairs of the business.

(6) **Legal Entity.** Partnership has no legal entity. [illegible] partners and the partnership firm are regarded as separate persons, it is not recognised by law. Persons who make agreement and form business are called partners and their organisation is known as firm.

(7) **Profit**—Profit of the firm is distributed among the partners according to the terms of the agreement. In the absence of any agreement or when the agreement does not provide for the division of profit, Partners share profits equally.

(8) **Scale of Business**—It is organised as a small or medium scale business. It cannot be a large scale business on account of limited capital and unlimited liability.

(9) **Risk Bearing**—All partners bear risk and uncertainties of business. Risks of the business can, therefore, be spread over a number of partners. A single partner is not required to bear the entire risk of the business.

(10) **Number of Members**—In this business minimum number of partners is two and the maximum is twenty. And in the case of banking business the maximum is ten.

Different Types of Partners :

There are different types of partners in a partnership firm. They are described below—

(1) **Ordinary Partner** : Partners who participate in the management of the firm are called ordinary partners. Their liability is unlimited.

(2) **Limited Partner** : Limited partner cannot participate in the management of the business. His liability is limited to the extent of capital he has contributed to the business. Indian Partnership Act does not provide for limited partnership. According to the Indian Partnership Act liability of all partners is unlimited. In the United Kingdom it is found.

(3) **Active Partner** : Active partner participates in the management, contributes capital and shares the profit according to the terms of agreement.

(4) **Sleeping Partner** : Sleeping partner contributes capital, shares profit but does not participate in the management of the business.

(5) **Holding Out Partner** : Holding out partner is not a partner. He is not liable for the debts and liabilities of the firm. He shows to the public by his conduct and acts that he is a partner of the firm. Holding out partner cannot bind other partners by his acts but he may be liable to any third party.

(6) **Quasi Partner** : When partner keeps his capital in the business as loan after his retirement or severance of connection from the business, he is called Quasi Partner. He gets interest on such loan but

cannot share the profit. But the rate of interest may vary according to the quantum of profit.

Different Types of Partnership :

(1) **Partnership At Will** : When a partnership has no definite period of continuance, it is known as partnersship at will. It can be dissolved at any time. If a partner gives a notice of dissolution to other partners, it is dissolved.

(2) **Particular Partnership :** When a partnership is formed to effect a particular transaction, it is called particular partnership. After the completion of the transaction it is dissolved.

(3) **Partnership for a fixed Term :** This type of partnership is formed for a fixed period. When the period is over, it is dissolved.

Partnership Deed or Articles of Partnership :

Partnership agreement may be made orally or in writing. The written agreement is known as Partnership Deed or Articles of Partnership. It is not obligatory that partnership agreement must always be in writing. But it is advisable that the agreement should be in writing and registered to avoid future disputes and litigations. A partnership agreement may include anything and everything concerning the share of profit, mode of management, rights and duties etc. The following points may be included in a partnership Deed—

1. Name of the firm.
2. Names and addresses of the partners.
3. Nature or object of the business. This clause is very important in as much as it helps in determining rights and liabilities of partners.
4. Amount of capital or proportion in which the capital will be supplied by the partners.
5. Duration of Partnership. It must be mentioned in clear terms whether duration depends on the will of partners or the partnership is for a particular period.
6. The proportion in which the partners will share profits or losses.
7. Amount of salary, if any, to be payable to any partner or partners.
8. Interest on capital, if any to be payable and the rate of interest.

9. The management of the business, that is, allocation of financial, sales and other managerial responsibilities to partners.

10. Method of keeping accounts and provisions for audit of accounts.

11. Names of partners who will sign cheques and operate bank accounts.

12. Basis of valuation of goodwill on the death, retirement or admission of partners.

13. Drawings of partners and whether interest will be charged on such drawings and the rate of interest on such drawings.

14. Grounds for dissolution and settlement of accounts on dissolution.

15. Provision for arbitration for settling disputes between the partners.

Registration of Partnership Firms :

Registration of a partnership firm is not made compulsory by the Act. But it is advisable that a partnership firm should be registered for the operation of the business. For registration a Partnership firm must pay the requisite fee and supply the following information to the Registrar of Firms, an official appointed by each state government—

1. Name of the firm.
2. Names and permanent andresses of partners.
3. Principal place of business and other places where partnership business is carried on.
4. Date of joining of each partner.

Information in respect of subsequent changes in the constitution of the firm must also be given to the Registrar.

Although registration is not compulsory, an unregistered firm suffers from certain disadvantages. These are as follows—

1. An unregistered firm cannot bring any suit against the third party for a sum exceeding Rupees one hundred.

2. A partner of an unregistered firm cannot also sue for enforcing his rights against other partners or against the firm.

But a partner of an unregistered firm can enforce the following—

1. He can sue for dissolution of the firm and for accounts.
2. He can sue for realisation of properties of the firm under dissolution.
3. He can sue for enforcing claim for a sum not exceeding Rupees one hundred.

Rights Duties, and Liabilities of Partners :

Rights and duties of partners are determined by the partnership agreement. In the absence of agreement the Partnership Act confers the following rights and duties—

Rights

1. Each partner is entitled to take part in the management of the business of the firm **but for such management a partner cannot claim any salary or remuneration.**

2. Every partner has the right **to share profits or losses equally.**

3. Every partner has a right to have access to and inspect and copy any of the books which are kept at the place of business.

4. **A partner cannot claim interest on capital** invested by him. But if such interest is payable, it shall be paid only out of profits.

5. **A partner is entitled to receive six per cent interest on any advance** made by him over and above his capital.

6. Every partner is entitled to be idemnified by the firm for any loss sustained or liabilities incurred in the normal course of the business or protecting the firm from loss in any emergency.

7. Every partner has a right to express his opinion for arriving at any decision although matters of dispute are settled by majority principle and decision on important matters require consent of all the partners.

Duties

1. It is the duty of every partner to carry on the business to the greatest common advantage.

2. Partners must be just and faithful to each other.

3. Partners must not make secret profit and give full information and render true accounts of the partnership business.

4. Partners must use the properties of the firm exclusively for the business of the partnership firm.

5. Every partner must indemnify the firm for any loss sustained by the firm for his fraud or wilful neglect in the conduct of the business of the firm.

6. Every partner should be honest and diligent.

Liabilities :

1. The liability of the partnership firm is unlimited.

2. Every partner is jointly and severally liable for all the debts and liabilities of the firm.

Dissolution of Partnership firm :

There are two types of dissolution namely, dissolution of partnership and dissolution of partnership firm. Dissolution of partnership means termination of partnership agreement but the business is continued as usual. Partnership agreement may be terminated for any one of the following reasons—

(a) Death of partner. (b) Retirement of a partner.

(c) Admission of a new partner. (d) Insolvency of a partner.

(e) Transfer of interest in the firm by a partner.

Dissolution of partnership firm means not only the termination of partnership agreement but also liquidation of the firm. A firm may be dissolved on the following grounds—

1. By the consent of all the partners that the firm should be dissolved.

2. If a partner gives a notice to all other partners intimating that the firm be dissolved.

3. By the expiration of the period for which the partnership is constituted.

4. When the partnership business becomes unlawful.

5. By the insolvency of all partners or all but one partner

6. By the death or insolvency of a partner.

7. The court can dissolve a partnership—

(a) On the insanity of a partner.

(b) If it thinks just and equitable that the firm be dissolved.

(c) If a partner is permanently incapable of doing his duties.

(d) If a partner wilfully and persistently commits breach of partnership agreement.

(e) If the partnership business cannot be carried on except at a loss.

(f) If a partner is guilty of misconduct.

(g) If a partner transfers his shares to an outsider or his shares are sold or attached by a court.

Advantages and Disadvantages of Partnership :

The following are the advantages of partnership business—

(a) **Formation**—Its formation does not require any legal formality. It can easily be formed and without much expenses.

(b) **Capital**—It can secure more capital as the capital is supplied by many partners.

(c) **Credit resources**—It can also secure more borrowed capital or take loans from outside agencies because of its unlimited liability and that many persons are there to meet the liabilities.

(d) **Combination of different abilities**—Unlike sole proprietorship business where one man controls and takes decisions, in partnership, partners of different abilities can improve management of the business.

(e) **Flexibility**—It has much flexibility and can easily be adjusted with the changing conditions in the market.

(f) **No separation of ownership and management**—Unlike company where same persons cannot act as owners and managers, in partnership, partners are owners and, at the same time, managers. This feature of partnership may enable the partners to work hard since they know that their hardworking and efficiency may bring for them more profit.

(g) **No oppression from the majority**—In partnership since decisions on important matters can be taken only with the consent of all the partners, majority cannot neglect the opinion of the minority.

(h) **Direct relationship**—Direct relationship can be established with the customers and employees. This feature may help partners to study the tastes and fashions of customers. Strikes and lockouts also become rare as employees' grievances are known and met quickly.

Disadvantages :

The following are the disadvantages of partnership business—

(a) **Limited capital**—Limited capital stands in the way of the expansion of the business. It cannot secure capital like joint stock companies which can raise much capital by selling shares and debentures.

(b) **Mismanagement**—In partnership all the partners can take part in the management of the business. Inefficient partners may, therefore, be responsible for the mismanagement of the business.

(c) **Instability**—Partnership business can be dissolved at any time with the death, retirement or insolvency of any partner. Therefore, there is no stability in the business.

(d) **Unlimited Liability**—Unlimited liability may again stand in the way of its becoming large scale business. Too much liability may not induce partners to take much risks.

(e) **Acts of other partners**—A partner is an agent of other partners. A partner is liable for all the acts and liabilities of other

partners. This feature may not induce other persons to enter into business as the dishonesty of one partner may cause hardship to others

(f) **Blocked Capital**—In partnership capital is likely to be blocked permanently as a partner cannot transfer his share in partnership without the consent of other partners.

(g) **Inability to take quick decisions**—In partnership decisions cannot be made quickly as the consent of all the partners must be obtained to effect any important change.

Distinction between Joint Hindu Family Business and Partnership :

Differences between Joint Hindu family business and partnership may be stated as follows—

1. **Definition**—Partnership is created by contract but membership in a joint family business is the result of status and it arises from birth in the family.

2. **Number of members**—In partnership the minimum number of member is two and the maximum is twenty and in case of banking business ten but in joint family business there is no such limitation in the number of members.

3. **Registration**—A partnership firm may be registered but the question of registration does not arise in case of joint family business.

4. **Law**—A Joint Hindu family business is governed by Hindu Law, whereas a partnership is regulated by the Partnership Act.

5. **Management**—All partners can take part in the management of the business of the partnership firm but the joint family is managed by the karta or the head of the family and other members have no right to take part in the conduct of the business of the joint family.

6. **Agency**—A partner is an agent of the partnership firm and is liable for the acts of other partners but in joint family business only karta has the authority to bind other members by all acts and a member has no such authority.

7. **Share of Profit**—In joint family business a member has no definite share which is increased by the death of a member and decreased by the birth of a new member, but in partnership a partner has a definite share.

8. **Liability**—The liability of partners is unlimited, whereas in joint family business the liability of the karta is unlimited but the liability of other members is limited to their interests in the joint property.

9. **Dissolution**—A partnership is dissolved by the death of a partner but a joint family business is not discontinued in case a member dies.

10. **Account of past Profits**—A member cannot demand an account of past profits and losses when he severs his connection from the family business, but a partner can ask for it when he severs his connection from partnership business.

11. **Membership**—A member in joint family business is known as coparcener but in partnership a member is known as partner.

Distinction between Sole Proprietorship and Partnership Business :

The following are the points of distinction between the sole proprietorship and partnership business—

(1) **Membership**—A sole proprietorship firm is owned by a single person. But the minimum number of member in a partnership firm is two and the maximum is twenty. And in the case of partnership banking business the maximum is ten.

(2) **Formation**—A single person can form sole proprietorship business easily and without much expense. But though a partnership can also be formed easily and without much expenses, it requires more than one person.

(3) **Capital Investment**—A greater amount of capital cannot be invested in the sole proprietorship business since a single proprietor can not invest a large amount of capital. In partnership larger amount of capital can be invested as the capital is contributed by many partners.

(4) **Division of Labour**—Sole proprietorship firm is organised on a small scale. It is very often managed by that sole trader only. As a result, division of labour is hardly introduced more particulary in the management of the business. In partnership functions of business are divided among the partners according to their ability and skill. Hence division of labour can be introduced.

(5) **Management**—Since a partnership firm is formed by persons of different abilities, they can take right decision at the right moment and hence manage it efficiently. A sole proprietor is required to take decisions on all matters of business. Therefore, the business may not be managed as efficiently as the partnership business.

(6) **Registration**—Registration of sole proprietorship business is not necessary at all. Though registration is not compulsory in the case of partnership, it can secure certain benefits if it is registered.

(7) **Profit Making**—A partnership business can make more profit than that of the sole proprietorship business. Partnership firm

makes more profit because of its organisational efficiency. Let us clear this concept by taking an example : Suppose, Mr. A is the sole proprietor of a business. He has managerial efficiency and can manage all affairs of the business efficiently. But he has not enough capital to invest in the business. As a result, he can not make more profit in his business. He makes a profit of say, Rs. 200 only. Similarly, Mr. B is the sole trader of a firm. He has enough capital but he lacks managerial efficiency. He has invested a greater amount of capital in his business but on account of managerial inefficiency he cannot make more profit. He makes the same profit usually, that is, Rs. 200.

Now Suppose, these two sole traders have formed a partnership business. Mr. B has invested capital more than what he had invested in his sole proprietorship business and Mr. A manages the business efficiently. In this case the partnership can make profit more than Rs. 200 Rs. 200=Rs. 400. It can make profit, say, Rs. 500. The partnership can make more profit because of the organisational efficiency that will be generated on account of combination of abilities of Messrs A and B.

COMPANY

Meaning and Definition :

With the development of commercialism and international trade, large scale industries were established everywhere in the World. Sole-proprietorship and partnership forms with their unlimited liability and instability were found unsuitable for undertaking large scale operations. A more improved form, namely, company form was later found out to undertake and manage large scale industries. Company form is an improvement over sole proprietorship and partnership forms of business. The features of unlimited liability, limited capital and instablity in the business have now been replaced by a more stable form of company business with limited liability, greater capital and legal entity.

Company means **an association of persons for the purpose of earning profit. It is a registered body and the law gives it a legal entity which means a company is a distinct person apart from the individuals who form it. It has a capital divided into a number of shares and is given perpetual succession and a common seal.**

Lord justice Lindley defines a company as "**an artificial person created by law with a perpetual succession and a common seal. It is an association of individuals for purposes of profit, possessing a common capital contributed by the members composing it, such capital**

being commonly divided into shares, of which each possesses one or more, and which are transferable by the owner."

The Companies Act, 1956 defines it as "a company formed and registered under this Act or an existing company."

The following are the **important features of a company**—

(1) **Legal Entity**—A company requires registration or incorporation and after registration it is given a legal entity. By it a company possesses a legal personality. It is regarded as a distinct person in the eye of law. It has a separate legal existence apart from the shareholders who compose it. Shareholders collectively are not known as company. This feature of individuality is given to a company as it is an autonomous institution.

(2) **Share Capital**—A company has a capital known as share capital which is divided into a number of shares. A share is a unit of capital possessed by a company. The capital is so divided as to facilitate different owners to contribute to a common capital. There are normally two types of shares, namely, preference and equity. The holders of preference shares, enjoy a preferential right in respect of profit and return of capital. Equity shareholders do not have such right and take the remaining profit, that is, the profit that remains after its distribution to the preference shareholders. But the equity shareholders have voting rights which the preference shareholders do not have.

(3) **Limited Liability**—The liability of the shareholders in a company is limited. Unlike a partner or sole proprietor a shareholder is not liable for all the debts and liabilities of the company. Liability is limited to the face value of a share. A shareholder is not required to contribute more than the face value of share in case of winding up of the company.

(4) **Perpetual Succession**—Law gives the company stability or perpetual succession. A company is not wound up by the death or insolvency of any shareholder or director of the company. It is created by law and is liquidated in accordance with the procedures of law. It is a very stable form of business. Shareholders may come and shareholders may go but the company continues.

(5) **Common Seal**—A company has a name which is mentioned in the memorandum of Association. The name of the company is engraved on its seal. A company is an artificial person and not a person of flesh and blood. Naturally, it cannot sign. The common seal is its official signature which is affixed on all documents of the company.

(6) **Separation of Control from Ownership**—In partnership partners who are the owners can also take part in the management of the business. The proprietor in a sole proprietorship concern is the owner and at the same time he is the manager. But in a company shareholders who are the real owners cannot take part in the management of the company. Ownership of a company is diffused among many persons who come from different walks of life. They are widely separated and unknown to one another. That is why, they only elect directors from amongst themselves and the directors can take part in the management of the business of the company.

(7) **Changing Ownership**—When a person buys a share of a company, he becomes its member. When he sells the share, he ceases to be the member of the company. As the share is transferable, ownership of the business is always changing.

Classification of Companies :

Company

Chartered Company | Statutory Company | Registered Company

Company Limited by Guarantee | Company Limited by Shares | Unlimited Liability Company

Private Limited | Public Limited | Government Company

(1) **Chartered Company**—These companies were established by means of Royal Charter or Proclamation when company law was unknown in the U.K. The East India Company and Chartered Bank of England, Australia and China are important examples. This type of Company is not found in India at present.

(2) **Statutory Company**—This type of company is established by a special act of the parliament. Generally public utility concerns are established in this way for the purpose of performing certain important economic functions. The Calcutta Electric Supply Corporation, Reserve Bank of India, State Bank of India, etc. are examples.

(3) **Registered Company.** Companies which are established by means of registration under the Companies Act, are known as Registered Companies. This type of company may be of three types—Guarantee Co., Company Limited by Shares and Unlimited Liability Co.

(4) **Company Limited by Guarantee.** The liability of this type of company is limited to a guaranteed amount which the shareholders undertake for meeting the debts and liabilities of the company. Clubs and chambers of commerce are established in this way.

(5) **Company Limited by Shares.** When the liability of the shareholders of a company is limited to the face value of shares, it is known as company limited by shares. This type of company may be of two types—Public limited and Private limited.

(6) **Public Limited Company.** This is a type of company where minimum [illegible] is no restriction in respect of [illegible] and is usually known [illegible] Companies [illegible] are [illegible] Public Limited Companies.

(7) **Private Limited Company.** This is a type of company where minimum [illegible] is [illegible] known as closely owned company.

(8) **Unlimited Liability Company.** It is a type of company [illegible] of limited liability.

(9) **Government Company.** When not less than 51% of the paid up [illegible] by the Government (Central Government or State Government or both) it is known as Government Company [illegible] registered under the Companies Act [illegible] Board of Directors [illegible] Government [illegible] Hindustan Steel Ltd., are established [illegible] National [illegible] examples of government company.

Distinction between Public Limited Company and Private Limited Company :

The following points of distinction between a Public Limited Company and a Private Limited Company may be stated briefly :

1. **Number of Members.** In a public limited company minimum

number of members is seven and there is no limitation in respect of maximum number. But in a private limited company the minimum number is two and the maximum is fifty.

2. **Starting of the business**—A private limited company can start business after its incorporation but a public limited company cannot, until it gets a commencement certificate.

3. **Issue of shares**—A public limited company can offer shares to the public but a private limited company cannot issue shares to the public.

4. **Number of Directors**—The minimum number of directors in a public company is three, whereas in a private company it is two.

5. **Holding of Statutory Meeting**—In the case of a private company, it is not necessary to hold statutory meeting or file statutory report with the Registrar but in a public company holding of such meeting is compulsory and a statutory report must be filed.

6. **Name of the Company**—The words 'Private Limited' must be added at the end of the name of a private company, whereas in the case of a public company the word 'Limited' only must be added at the end of its name.

7. **Prospectus**—As a private company does not offer shares to the public, it need not issue a propectus or a statement in lieu of prospectus. But it is obligatory on the part of a public company to issue the prospectus or a statement in lieu of prospectus.

8. **Shares with Disproportionate Voting Rights**—A private company can issue deferred shares but a public company can issue only two types of shares, namely, preference and equity.

9. **Transfer of Shares**—In a private company restrictions can be imposed on the transfer of shares, whereas in a public company shares can freely be transferred.

10. **Other Privileges or Restrictions**—Restrictions in respect of appointment of managing director, wholetime director, managerial remuneration, number of directorship etc., have been imposed on a public company. But these restrictions are not necessary in the case of a private company. On the other hand, these privileges are enjoyed by a private company.

Registration of Company:

Every company requires registration. A company cannot be established unless it is registered. It acquires legal entity by means of registration. Seven persons are required in the case of a public limited company and two persons in the case of a private limited company for

registration. Two documents, namely, Memorandom of Association and Articles of Association, are to be filed with the Registrar of Joint Stock Companies. The Memorandum of Association is the charter of a company. It contains six important clauses, namely, name, registered office, object clause, liability clause, capital and subscription clause. The Articles of association are meant for the internal management of a company. A Private Limited Company is required to file these two documents along with a declaration by a director or the secretary or a chartered accountant or an advocate that the provisions of the Companies Act have been complied with. But a Public Limited Company is required to file the following along with the above documents.

(1) A list of directors, (2) Their consent to act as directors, (3) Directors' agreement to take qualification shares, (4) A declaration, like above, that the requirements of the Companies Act have been complied with.

After having these documents, the Registrar of Companies registers the company and issues a certificate known as **Certificate of Incorporation.** A private company can then start its business but a public limited company cannot.

A public limited company then issues a Prospectus or a Statement in Lieu of Prospectus inviting public to purchase shares of the company. When minimum subscription has been subscribed for, the directors issue shares to those who have applied for purchasing the shares of the company. Minimum subscription means minimum amount of capital that is required for giving a start to the business. A report of the minimum subscription along with a document intimating that the directors have paid for their qualification shares are to be filed with the Registrar. The Registrar issues a certificate known as **Certificate of Commencement.** A public limited company can then start its business. Lastly, if a company wants to raise capital to the extent of Rs. 25 lakh or more, it must get permission from the Controller of Capital Issues.

Memorandum of Association :

The Memorandum of Association is the Charter of a company. It defines and limits the powers of a company A company can do only what is given in the Memorandum. It contains the following clauses—

(1) **Name clause**—A company may choose any name it likes but it must not resemble the names of other registered companies. At the end of the name of a private company the words 'private limited' must be

added. Only the word 'limited' must be added at the end of the name of a public company.

(2) **Registered Office**—This clause states the place at which the registered office of the company is to be situated.

(3) **Object clause**—This clause is very important. It includes the details of the business the company wants to do.

(4) **Liability clause**—This clause states that the liability of the members is limited.

(5) **Capital clause**—The total amount of capital is mentioned in this clause. The amount of each share and the number of shares into which the capital is to be divided are also mentioned. The capital which is mentioned in the Memorandum is known as Authorised Capital.

(6) **Subcription clause**—The names, addresses, signatures and description of the signatories to the Memorandum are given in this clause. The amount and number of shares taken by them are also stated in this clause.

Articles of Association :

The Articles of Association are the rules and regulations for the internal management of a company. They establish the relationship between the company and the shareholders and define the powers and duties of the directors and other officers of a company. The Articles contain the rules regarding conduct of the meetings of a company, voting rights, powers of directors, appropriation of profits, election procedures etc. The Articles cannot go beyond the Memorandum and cannot violate any provisions of the Companies Act.

A public company may, or may not register its Articles. But in case the Articles are not registered, the Model Articles given in Table A of Schedule I to the Companies Act will apply to it Other companies must file the Articles at the time of registration.

Generally, the Articles of Association contain the following—

(a) Number of members, (b) Rules regarding conduct of meeting, (c) Rules regarding election of directors (d) Names, addresses and powers of directors, (e) Rumuneration of directors, (f) Capital and its division into number of shares, (g) Borrowing power of the company, (h) Rules regarding transferability of shares, (i) Brokerage and commission on sale of shares, (j) Forfeiture of shares, (k) Common seal of the Company, (l) Rules regarding creation of reserves and declaration of Dividend, (m) Rules regarding alteration of Articles, (n) Procedures for winding up, (o) Calls on shares, (p) Issue of Bonus shares etc.

Distinction between the Memorandum of Association and the Articles of Association

The following are the differences between the Memorandum and the Articles—

(1) The Memorandum is the charter of a company and defines its powers and objects, whereas the Articles are the rules for the internal management of a company.

(2) Registration of the Memorandum is compulsory but in the case of a public company registration of the Articles is not compulsory.

(3) The Memorandum cannot go against the Companies Act but the Articles cannot go not only beyond the Memorandum but also against the Companies Act.

(4) For alteration of the Memorandum special resolution of ¾ members and permission from the Court are necessary, whereas the Articles can be altered at any time on the ordinary resolution of the members.

(5) The Memorandum points out the relationship between the company and the third party, whereas the Articles regulate the relationship between the company and its members and between its members themselves.

(6) The Memorandum can be compared with the constitution of any state but the Articles can be compared with the ordinary legislation.

(7) The Memorandum defines the basic objectives of the company, whereas the Articles provide ways for realisation of those objectives.

Prospectus

The Companies Act defines a prospectus as "any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any shares in, or debentures of a body corporate". Just after incorporation a public company issues prospectus. Prospectus is issued for two purposes—firstly, to invite the general public to purchase the shares and debentures of the company, secondly, to give detailed information about the company to the general investors. It must be signed by all directors of the company. Directors who are signatories to the propectus are responsible for any mis-statement or false statement in the prospectus. If a company does not issue a prospectus, it can issue a statement in lieu of a prospectus. Generally, an application form for share subcription is attached to a prospectus.

A prospectus contains the following particulars—

(1) The detailed information about the different clauses of the memorandum along with the names, addresses and descriptions of the first directors and number of shares held by them.

(2) Qualification shares of the directors and their remuneration.

(3) Capital of the company, the number of shares and the amount of each share.

(4) Rights and dividends attached to different classes of shares.

(5) Preliminary expenses incurred by the company.

(6) Minimum subscription and the amount payable on application, allotment and calls on shares.

(7) Particulars of the property purchased and names, addresses and descriptions of vendors and the prices paid to them.

(8) Names and addresses of Auditors and Underwriters and the commission payable to the Underwriters.

(9) Remuneration of the managing director, if any, and brokerage and commission payable to the agents and brokers.

(10) Any material contract entered into by the company and any other particulars.

Minimum Subscription

Minimum subscription means the minimum amount of capital which a company requires for the starting of the business. Every public company offering shares to the public for subscription must state in the prospectus or a statement in lieu of prospectus the amount of minimum subscription which the company must raise before the commencement of the business. Shares cannot be allotted by the directors unless the amount of minimum subscription is raised through the applications for shares. The amount of minimum subscription is fixed by the directors. It covers the following expenses—

(a) The purchase price of any property bought or to be bought by the company.

(b) Preliminary expenses and commission to be payable on sale of shares.

(c) If the company has borrowed money for the above two purposes, the amount required for repayment of such loan.

(d) Working capital.

(e) Any other necessary expenditure.

Director's Qualification Share

It is not desirable to entrust the dircteorship of the company to any person who has no interest in the company. That is why, a

director is required to buy qualification share. According to the companies Act, a director is to buy qualification share of the minimum value of Rs. 5000. If the value of the share is more than Rs. 5000, a director may buy only one share. The number and value of qualification shares are mentioned in the articles of association. But it is not now compulsory that a director is to take qualification share. It is dependent on the articles of association.

Distinction between a Partnership and a company

The points of difference between a partnership and a company may be stated as follows—

1. **Regulation by the Act**—Partnership is governed by the Partnership Act, 1932 but a company is regulated by the Companies Act, 1956.

2. **Formation**—In the case of partnership. formation is very easy and legal formalities are not required, whereas company formation is not very easy as legal formalities are required to be observed.

3. **Nnmber of members**—In a partnership minimum number of members is two and maximum is twenty and in the case of banking business ten, but in the case of a private company minimum number it two and maximum is fifty, and in the case of a public company minimum is seven and there is no maximum.

4. **Liability**—Liability of the partners is unlimited but the liability of the shareholders is limited.

5. **Registration**—In the case of a company, registration is compulsory as it is created by incorporation but registration is not compulcory in the case of partnership.

6. **Legal Entity**—A compay in regarded as a separate person in the eye of law but a partnership is not regarded as such.

7. **Management**—All the partners can take part in the management of the business of a partnership firm, whereas in a company only the directors who are elected by the shareholders can manage the affairs of the company.

8. **Stability**—A partnership can be dissolved by the death, retirement or insolvency of a partner but a company cannot be wound up by the death or insolvency of any shareholder or director. A company is a very stable form of business.

9. **Transfer of Shares**—A partner cannot transfer his share in partnership without the consent of other partners, but although in private company restrictions are imposed on transfer of shares, in public companies shares are freely transferable.

10. **Filing of Documents**—Partnership documents need not be filed with the Registrar of Firms. Only changes in the constitution of firm are notified to the Registrar. But in the case of a company important documents must be filed with the Registrar of Companies.

11. **Capital**—Much capital cannot be raised in partnership as the capital is contributed only by the partners and the borrowing capacity is also limited. But in a public company a large amount of capital can be raised as the share capital is divided into number of shares which are offered to the public for subscription.

12. **Flexibility**—Partnership has much flexibility in its operation and can be adjusted quickly with the changing conditions in the market. But a company has no such flexibility on account of legal formalities which are required to be observed for its important alterations.

13. **Relations with the Customers and Employees**—Partners establish direct relationship with the customers and employees. But in the case of a company shareholders cannot manage the business and hence, question of direct relationship cannot arise. Salaried managers are appointed for the management of the business.

14. **Expansion**—There is little scope for the expansion of the partnership business on account of unlimited liability and limited capital but a company business can easily be expanded and usually a public company undertakes a large scale business

15. **Government control**—Government control is virtually absent in partnership organisation but public companies are controlled by the Government.

16. **Share of Profit**—In the partnership business partners share profits and loss according to the terms of the agreement. If the agreement does not provide for division of profit, partners share profits equally. On the other hand, profit is distributed as dividend among the shareholders in a company.

COMPANY CAPITAL

Financial management is very important in a Joint Stock Company. It has a special significance in a public limited company. It is specially significant because in a public limited company capital is contributed by a large number of persons and the profit is distributed among a large number of persons. It gets the capital from the general investors and hence incentives or adequate return in the form of dividend must necessarily be provided to them. This feature of corporate capital makes financial management of a company more im-

portant or significant than that of any other forms of business. That is why, at the time of registration of the company, the promoters should estimate carefully after thorough planning and research the amount of capital they require for the business. Moreover, they must also decide about the composition of the capital structure, i.e., division of total capital between different classes of securities namely, Preference Shares, Equity Shares and Debentures.

Classification of Capital

Company capital is classified as—

(1) **Authorised or Registered Capital :** The capital which is mentioned in the memorandum of association and with which the company is registered is known as Authorised or Registered capital. This is the maximum amount of capital which a company can raise. It can not secure more than this authorised capital. If it wants to procure more than the authorised capital, it is to alter the capital clause of the memorandum. Normally, it does not issue the entire amount of the authorised capital. That is why, it is also called Nominal Capital.

(2) **Issued Capital :** The part of the authorised capital which a company issues to the public is called Issued Capital.

(3) **Subscribed Capital :** The portion of the issued capital which the public apply for purchase is known as Subscribed Capital.

(4) **Called up Capital :** The part of the issued capital which is called up by the company is known as Called up capital.

(5) **Paid up Capital :** The part of the called up capital which is paid up by the shareholders is called Paid up capital.

(6) **Reserve Capital :** The uncalled portion of the capital which is collected at the time of the liquidation of the company is called Reserve Capital.

(7) **Calls in Arrear :** The amount of called up capital which the shareholders have not paid, that is, which is still in arrear is known as calls in arrear.

(8) **Calls in Advance :** If the shareholders pay off the entire value of the shares before calls are made, it becomes calls in advance.

Different Types of Shares

According to the provisions of the Companies Act '56, a public company can now issue two types of shares, namely, preference share and Equity share. Deferred share has now been abolished. A company cannot now issue deferred share.

Preference Share

Preference Share is a type of share the holder of which gets the profits of the company in preference to other shareholders. A preference shareholder is given two rights—

(a) He is entitled to receive dividend before any dividend is paid to other shareholders.

(b) He is entitled to get back his capital prior to other shareholders in the event of liquidation.

Preference shares may be of the following types—

(1) **Cumulative Preference Shares**—A fixed rate of dividend is paid every year on cumulative preference shares. If in any year the company does not make sufficient profit to pay the fixed rate of dividend, such dividend is accumulated, and in the next year if the company makes enough profit, it must pay both the arrear dividend and current dividend.

(2) **Participating Preference Shares**—The holders of these shares have the right to participate in the profits of the company in addition to their privilege of getting dividend and return of capital prior to other shareholders.

(3) **Redeemable Preference Shares**—They are a type of shares the amounts of which are paid back or purchased back by the company after certain years, provided they must be fully paid. These shares can be redeemed out of the fresh issue of shares or out of the profits of the company.

Merits of Preference Share

The following are the advantages of preference share—

(1) A fixed rate of dividend is paid in this type of share. Preference shareholders are, therefore, assured of the rate of dividend they are to be paid.

(2) They can also know the amount of dividend they will get as the rate of dividend is fixed.

(3) This share has less risk and the cumulative preference share has no risk at all. If in any year dividend is not paid, next year the arrear dividend is paid along with current dividend.

(4) Whenever the company makes profit, preference shareholders get the dividend first.

(5) After the dissolution of the company, the surplus capital is paid to the preference shareholders first.

(6) The investors who do not like to take risks in investment can buy preference share.

(7) Since this share is less risky, it can be sold in depressed market.

Demerits of Preference Share

The following are the demerits of preference share—

(1) As the rate of dividend is fixed in this type of share, the amount of dividend is likely to be low.

(2) The holders of this share get fixed rate of dividend even if the company makes larger amount of profit. They can not get more dividend. Of course, in the case of participating preference share, the holders can get more than the fixed rate.

(3) This share has no voting right. They cannot vote in the annual general meeting of the company. Therefore, they cannot control the affairs of the company. Of course, if their interest is jeopardized and do not get dividend for a few years they can acquire voting right.

(4) During boom period the shareholders like to take risk and hence they do not prefer preference share

Equity Share

All shares other than preference share are known as Equity share. Equity shareholders get dividend after the fixed rate of dividend is paid to the preference shareholders. In the case of return of capital after dissolution of the company, the preference shareholders get back first the capital. If any surplus capital remains after payment to the preference shareholders, the equity shareholders get it. But the equity share has voting power. The equity shareholders can participate in the annual general meeting of the company. As they have the voting right, they can control the affairs of the company. If the company makes larger amount of profit, the equity shareholders can get more dividend. Because after paying fixed rate of dividend to the preference shareholders, the remaining profit is distributed among the equity shareholders. Suppose a company has issued 6% preference share of Rs 600 and equity share of Rs. 400. If the company makes profit of Rs. 100, the preference shareholders will get $[600 \times {}^{6}/_{100}]$ = Rs. 36 and the remaining profit of (100—36) = Rs. 64 will be given to the equity shareholders at the rate of $[{}^{64}/_{400} \times 100] = 16\%$. Therefore, it reveals that as the preference dividend is fixed, equity shareholders can enjoy greater rate of dividend. On the otherhand, if the company makes insufficient profit, the equity shareholders get low rate of dividend or they may not get any dividend.

Merits of Equity Share

The following are the merits of equity share—

(1) Though this share gets dividend after paying to the preference shareholders, it may get increasing rate of dividend.

(2) If in any year the company makes larger amount of profit, equity shareholders can get greater rate of dividend for a fixed rate of dividend is paid to the preference shareholders.

(3) As the equity shareholders have the voting power, they can control the business affairs of the company.

(4) During boom period as the investors like to take risk, they prefer equity share.

Demerits of Equity Share

The following are the demerits of equity share—

(1) As the rate of dividend is not fixed in the case of equity share, shareholders do not know what rate of dividend will be paid to them.

(2) As the rate of dividend is not fixed, the shareholders are not assured of dividend at the end of the year.

(3) This share is risky as the holders do not get dividend unless there is sufficient profit.

(4) If any profit remains after paying to the preference shareholders, it is distributed among equity shareholders.

(5) In the depressed market the investors do not like to take risk and so they do not prefer to buy risky equity share.

Deferred Share

After paying dividend to the preference and equity shareholders if any profit remains, it is distributed among the deferred shareholders. In the case of return of capital after dissolution deferred shareholders are paid the surplus after payment to the preference and equity shareholders. Though this share has voting right, its value is very small. As the share has voting right, it is very significant in controlling the affairs of the company.

In the past the promoters and directors of the company bought this share for controlling the activities of the company. That is why, this share came to be known as Promoters' share or Founders' share or Managers' share. At present, **a public limited company can not issue** deferred share. Public limited company is entitled to issue preference share and equity share.

Bonus Share

Sometimes, a company may not be in a position to pay dividend in cash to the shareholders, on account of inadequate cash or bank balance as the entire profit is absorbed in assets other than cash. In that case the company pays dividend by issuing shares to its members. The shares thus issued free of cost to the shareholders are known as **Bonus Shares**. Bonus shares can also be issued out of the accumulated reserves of a company. When bonus shares are issued out of the balance in the profit and loss account or reserve fund, it means capitalisation of profits.

Bonus shares can be issued at par or at premium. Only fully paid up bonus shares can be issued out of the capital redemption reserve account or share premium account. In other cases both fully paid up or partly paid bouns shares can be issued.

Bonus shares are also issued for making partly paid shares fully paid. It means that if calls on shares remain due, such call amounts are taken as paid up by utilising such bonus.

By issuing bonus shares a company can utilise the profit as capital and thus it can get capital for expansion of the business without incurring any liability for paying fixed charges. Secondly, the company can get rid of the difficulties of paying dividend in cash when cash is not available. Thirdly, it removes the gap between the actual worth of the assets and the share capital as shown in the Balance Sheet. Fourthly, to the shareholders it is as good as getting dividend in cash as the members can sell such bonus shares in the market. Fifthly. shareholders are not required to pay cash for eliminating liability on uncalled amount of the shares when bonus is paid for making partly paid shares fully paid. Sixthly, shareholders may enjoy tax relief, as incometax is not deducted from the bonus dividend but the cash dividend is taxable. Lastly, members may get the opportunity of investing their funds in the capital of the company.

But a company should consider very carefully its financial position and profitability before the issue of bonus shares. If a company is not in a position to increase its profit, further issue of capital by means of bonus shares will diminish the rate of dividend and also lower the value of shares. Secondly, sanction from the Central Government is necessary for issuing bonus exceeding ten lakhs of ruppes. Moreover, a company is required to pay additional tax @ 12½% on such issue.

Stock

When capital or loan to a company is aggregated into one sum and is divisible for transfer purposes into amounts known as nominal

value, it is called stock. A Share, on the other hand, is a monetary unit into which the total capital of a company is divided and the unit denotes the nominal value of the share.

When shares are fully paid, it can be converted into stock provided it is permitted by the Articles of the company. Stocks can also be reconverted into fully paid shares. Rights of shareholders or stock-holders are not affected by such conversion or reconversion. If a company converts shares into stocks or reconverts stocks into shares, a notice to that effect is to be given to the Registrar of Joint Stock Companies within fifteen days.

Distinction between a Stock and a Share

The points of difference between a share and a stock may be stated as follows :

(1) A stock can be transacted in multiple of some monetary unit and if the Articles of the company permit, it can be transacted in small fractions. A share can be transacted only as an indivisible unit into which the total capital of the company is divided and as a whole and not in fragments. No body can purchase one half of a share.

(2) A stock must always be fully paid but a share may be fully paid or partly paid.

(3) Every share has a distinct number but the stocks bear no such number.

(4) The total capital of the company is divided into shares of equal amount but the stock can be divided into unequal amounts.

(5) Since fully paid shares can be converted into stock, it cannot be transacted initially but shares can be transacted initially as a company issues shares first for raising capital.

Debentures

Debenture may be defined as an instrument issued by a company under its seal acknowledging its debt to the holder or holders of the instrument. A company accepts loan by issuing debentures. All companies cannot issue debentures. Companies can issue debentures provided they have got the borrowing power. Usually a trading company having implied power to borrow money can issue debentures. A debenture represents loan, it can be paid back by the company at any time. Debenture holders are, therefore, the creditors of a company and entitled to get interest every year. Debentures may be secured and this means that they are issued by mortgaging the whole or part of the assets or they may be unsecured. Debentures may be of the following types—

(1) **Ordinary Debentures**—These debentures are unsecured They are issued without any charge on any asset.

(2) **Secured Debentures**—Secured debentures are those debentures which have a charge on the whole or part of the assets. This charge can be enforced only on the nonpayment of the principal amount of the debentures and the interest. This charge may be fixed or floating. In case of fixed charge certain assets are specifically mortgaged and the company cannot deal with such assets in any way it likes without the consent of the debentureholders. Floating charge signifies that specific assets are not mortgaged and the company can use them or deal with them without the consent of the debentureholders.

(3) **Redeemable Debentures**—These are a type of debentures the amount of which is paid back by the company after a stipulated period. They may be redeemed on instalments or all at once.

(4) **Perpetual Debentures**—The amount of such debentures is not paid back except on the winding up of the company.

(5) **Registered Debentures**—When a company records the names of the debentureholders, the debentures are said to be registered. The transfer of such debentures cannot be effected unless the company registers such transfer recording the name of the transferee after cancelling the name of the transferor.

(6) **Bearer Debentures**—These debentures are not registered and they can be transferred by mere delivery.

(7) **Legal Debentures**—Debentures issued with fixed charge on assets are also known as legal debentures. The ownership of such specific assets is transferred by a deed to the debentureholders.

Distinction between a Share and a Debenture

The points of difference between a share and a debenture may be summed up as follows—

(a) A share is a part of the capital of a company, whereas a debenture is loan to a company.

(b) Holders of shares are owners of the company but debenture holders are the creditors of the company.

(c) Though shareholders cannot take part in the management of a company directly, their representatives, that is, directors usually manage the affairs of a company. But debenture holders cannot take part in the management of a company either directly or indirectly.

(d) Equity shareholders have voting rights but debenture holders have no voting rights except in certain circumstances.

(e) Shareholders get profit of a company proportionately but debenture holders receive fixed rate of interest. They can not claim the profit of the company.

(f) On liquidation of a company shareholders cannot claim the surplus before the amount due to the debenture holders are paid. Debenture holders are the creditors of a company and their claims are to be met prior to the distribution of the surplus to the shareholders.

(g) As the debentures are redeemable, debenture money can be refunded after a certain period of time. But share money cannot be refunded except in the case of redeemable preference shares.

Share certificate

It is a document issued by a company intimating therein that certain person holds or persons hold certain amount of shares of the company and his name or their names are registered or recorded in the register of members. After the allotment of shares the company issues the share certificates incorporating therein the class of shares, amount of shares, partly or fully paid and the distinct number of shares issued to different shareholders. It is not a document of title and hence, is not transferable by endorsement and delivery. Shares are delivered by the seller of securities by transferring share certificate along with excuting a transfer deed.

Share warrant

It is a document of title issued by a company, provided its Articles permit, to a person or persons who holds or hold a number of shares of the company. It is issued only for fully paid shares. Unlike share certificate it can be transferred by endorsement and delivery. It is, therefore, a quasi negotiable instrument. The names of the holders of share warrants are also not recorded in the register of members of the company since it is very difficult for the company to trace out such holders, as the share warrant can be transferred by one person to another. The bearer of the share warrant can apply to the company for the issue of share certificate in exchange for share-warrant. Moreover, a holder of share warrant is entitled to attend and vote at the company meetings, provided he submits the share warrant to the company two days before the holding of such a meeting. In India share warrant is rarely issued.

COMPANY MANAGEMENT

Nature of Management

The Companies Act in India has introduced democracy in company management. Shareholders are owners of the company. Naturally, all controlling powers rest with the shareholders. But the shareholders usually come from different walks of life. They have no time and interest in company management. Moreover, ownership in a company is so widely diffused or dispersed that it is not practicable for a large body of shareholders to take part in the management of the company affairs. So they elect annually from amongst themselves certain persons as directors. These directors are all powerful. All managerial responsibilities are vested with the directors. But the directors cannot act individually. They form a board known as Board of Directors. The dirctors have collective responsibility and they take decisions by means of majority principles. A chairman is also elected to conduct the meetings of directors and shareholders

The whole pattern, therefore, can be compared with the administrative set up of a state having parliamentary democracy. The chairman is compared with the President of the state, the board of directors with the council of ministers and the large body of shareholders with the electorate. The ministers forming the cabinet are known as peoples' repesentatives. So also the directors who are known as shareholders' representatives.

The board of directors formulates plans and policies and is responsible for taking decisions on all important matters. Though board is to see whether the policies are executed properly or not, actually the polices and the plans are implemented by the officers or executives of the company. The Companies Act provides for different types of executives, namely, Manager, Managing Director, Managing Agent, Secretaries and Treasurers, etc. Managing Agent and Secretaries and Treasurers are now abolished. Besides these, different officers in the middle and lower levels are appointed by the board to assist in the implementation of the policies and plans. This is the management pattern of a limited company.

Since the board of directors is to determine plans and policies and to see that these plans and policies are properly implemented, it is known as a plural executive. Generally, the board appoints one of the directors as a whole time director. This wholetime director is called Managing Director or Manager or Chief Executive. Managing Direc-

tor, Manager or Chief Executive is reponsible for effective implementation of plans and policies formulated by the Board of Directors.

It is not possible for a chief executive in a big enterprise to look after each and every affair of the company. It is also not mentally possible for him to take decisions on all matters. That is why, the chief executive delegates authority and responsibility to all middle and lower level officers so that these officers may take decisions on the spot where operation takes place.

Board of Directors

The board of directors is placed at the top management position. The authority to manage the whole affairs is conferred on the board by the Act. In fact, the provisions of the company law require that a registered company must be managed by a board of directors. A company is a legal person and not the person of flesh and blood. It cannot act by itself. Directors are the hands and brains of the company. A company acts through directors.

Appointment of Directors—Directors are elected in every annual general meeting. Until the holding of the annual general meeting persons named in the Articles may be appointed as directors of the company. If the Articles do not mention such names, persons who have signed the Memorandum are appointed as directors of the company. Government and statutory finance corporations which have advanced loans can also nominate directors in the board of directors of the company. Casual vacancies are filled in by the board.

The following persons cannot be appointed as directors—(a) persons of unsound mind, (b) undischarged insolvent, (c) persons adjudicated as insolvent, (d) persons who have been convicted and imprisoned for six months for any offence involving moral turpitude during the preceding five years, (e) persons who have failed to pay call money on shares, (f) if court disqualifies a person.

If a person wants to be appointed as a director, he must give a notice intimating such intention to the company at least 14 days before the holding of the meeting in which the election will take place. The company then issues a notice to that effect to each and every shareholder 7 days before the meeting.

A director must file with the Registrar his consent to act as director. He must also take qualification share. He must not be a director of more than 20 public limited companies at a time.

Number of Directors—Every public limited company must have at least three and every private limited company must have at least two

directors. The maximum number is mentioned in the Articles. A company can increase the number of directors beyond the maximum mentioned in the Articles provided, it takes permission from the Central Government. A company can increase the number upto twelve without the approval from the Government if the Articles provide for less than twelve directors.

Retirement of Directors—Two thirds of the total number of directors must retire by rotation. The Articles of the company may also provide for the retirement of all the directors every year. The retiring directors may also seek re-election.

Remuneration of Directors—Remuneration is mentioned in the Articles or it may be determined by means of resolution passed in the shareholder's general meeting. But the remuneration must not exceed 11% of the net profit or Rs. 50,000. Remuneration cannot be increased without the permission from the Central Government. But the director's fee for attending board meeting can be increased upto Rs. 250 without the permission from the Government. Directors can also be paid commission which must not exceed 1% of the net profit if there is a manager, 3% in any other case.

Powers and Functions of Directors—Unless specially delegated a director cannot exercise powers individually. They can only exercise powers conferred on them by the Act and Articles collectively by means of resolutions passed in the board meeting.

Directors have two sets of powers and functions, namely. legal powers and executive powers. Legal powers are of two sets—

(a) Powers that can be exercised independently, and

(b) Powers that can be exercised with the permission of the shareholders.

The following powers can be exercised independently—(1) to make calls on shares, (2) to issue debentures, (3) to borrow money other than on debentures, (4) to make loans and (5) to invest money.

The directors can exercise the following powers only with the consent of the shareholders—

(1) To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking.

(2) To remit any debt or give time for repayment of any debt due by a director.

(3) To invest money otherwise than in trust securities.

(4) To borrow money more than the paid up capital and free reserves.

(5) To donate to any charitable or other funds any amount not exceeding Rs. 25,000 or 5% of the average net profit of the last three years which ever is greater.

Besides legal powers, the directors are to perform executive functions for the operation of the business. The directors are—

(1) to determine plans and policies of the business, to take decisions on all important matters and to determine the objectives of the business,

(2) to appoint officials particularly at the top and middle levels of management,

(3) to delegate authority and responsibility to the subordinate managers and to see that the responsibilities have been discharged by them efficiently,

(4) to fix the rate of dividend—dividend is paid out of the profit and divisible profit is determined by the deduction form the total revenue, the cost of sales and other office and administrative expenditures,

(5) to co-ordinate and control the decisions taken and functions performed at the different levels.

Duties and liabilities of the Directors—Directors have certain duties imposed on them by the Act. As the managerial responsibilities are vested with the directors, it is expected that they would discharge the responsibility with reasonable care and diligence. Although they are not liable for any wrong judgment, they must act in a manner as is expected from a man of ordinary prudence. If a director does not care for his duties, he will be liable for negligence.

The **following duties are imposed** on them—

(a) The directors must not take loans from the company without the permission from the Government.

(b) The company cannot guarantee or provide security for any loan taken by a director.

(c) If a director is interested in any contract entered into by the company, he must disclose the fact to the board of directors.

(d) A director should also disclose the number and value of shares he holds.

(e) A director cannot also hold any place of profit under the company without the approval of the shareholders.

The **liabilities of the directors** may be stated as follows—

(a) Directors are liable for untrue statement in the prospectus.

(b) If they are negligent in performing their duties, they must pay compensation to the company for any damage the company may suffer,

(c) Dirctors are not personally liable for contracts entered into by them on behalf of the company. But while making contracts if they exceed the authority delegated to them, they may be liable personally to pay damage to the other party.

(d) Directors may be criminally liable for breach of trust or misdemeanour.

(e) Directors are liable to pay compensation to the company if the dividend is paid to the shareholders out of capital.

(f) Directors must not make any personal profit. If a director makes any secret or personal profit, he is liable to account for such a profit.

The memorandum of association may provide for the unlimited liability of directors.

Chief Executive

The board of directors formulates plans and policies but is unable to look after the details of company management. The task of implementation of the policies is delegated to the chief executive of the company. The chief executive executes the plans and policies formulated by the board under the overall supervision and control of the board of directors. For the purpose of day to day operation the board delegates necessary authority and responsibility to the chief executive. The Companies Act provides for different forms of Chief Executive. These are—

1. Managing Director.
2. Manager.
3. Managing Agent.
4. Secretaries and Treasurers.

Besides above, the Management through committees of directors is a common practice. By the subsequent amendment of the Companies Act., the Managing Agency and Secretaries and Treasurers were abolished.

Managing Director

Managing Director is a wholetime director. Substantial powers of management are given to the managing director. He is to perform his duties under the supervision and control of the board of directors. His powers and duties are regulated in accordance with the agreement

with the company or by the Memorandum or Articles of Association or special resolution in the general meeting or by the board of directors.

Appointment of Managing Directors—The following are the rules regarding appointment—(a) The appointment of managing director for the first time requires approval from the Central Government. (b) Rules regarding appointment or re-appointment cannot be altered without sanction from the Government. (c) Appointment can be made only for a period of five years. After the expiry of the five years the same managing director can be re-appointed. (d) A person cannot be appointed a managing director for more than two companies. He can be appointed a managing director for more than two companies only with the approval of the Central Government. (e) The following persons cannot be appointed as a managing director—(i) undischarged insolvent, (ii) a person adjudicated as insolvent and (iii) a person who is convicted of any offence involving moral turpitude.

Remuneration—The Act provides 5% of the net profit as remuneration of the managing director. If there are more than one managing director, remuneration is fixed as 10% of the profit. Remuneration can also be paid by way of monthly payment. Changes in the remuneration cannot be effected without the approval from the Central Government.

Powers and Functions—The powers and functions of the managing director are dependent on the agreement with the company or Memorandum or Articles of Association. But he is entrusted with the substantial powers of management. Besides his routine duties of signing cheques, registering transfer of shares, issuing certificates of shares and performing such legal functions as may be delegated to him by the board, the main tasks of a managing director are—

(1) To implement plans and policies formulated by the board.

(2) To delegate authority and responsibility to the managers at the middle level.

(3) To co-ordinate and control the activities of the subordinates.

(4) To motivate the subordinates for maintaining high morale among them.

(5) To build up a flexible organisation structure and sometimes to take decision on the spot where operations take place and get it ratified by the board.

(6) To get the necessary information and explanations from the subordinates to prepare the report of working of the enterprise for a financial period.

(7) To submit his report and the working results to the board along with his suggestion for improvement.

Manager

A company can also appoint a manager as a chief executive. He has the management of the whole or substantially the whole of the affairs of the company. But his activities are subject to the superintendence, control and direction of the board of directors. Unlike a managing director who must always be a whole time director, an outsider can be appointed as a manager. He is a servent of the company and is to carry out the responsibilities and to perform the duties delegated to him by the directors. Rules provided in the Act in respect of his appointment, remuneration, tenure of office and other matters are similar to those of managing director. He can be appointed for a period of five years at a time. He is to get 5% of the profit as remuneration etc.

Advantages and Disadvantages of Company form of business

Advantages—The following are the advantages of a company :

1. **Limited Liability**—Limited liability makes a company an improved form of organisation. It can operate large-scale business and therefore, can undertake greater risks.

2. **Legal Entity**—A company is a registered body and is regarded a legal person. Therefore, there is no risk in entering into contracts as it can sue and can be sued.

3. **Greater Stability**—A company is a stable form of business and cannot be wound up for any reason except in accordance with the procedures of law. If market permits, it can be continued forever and, therefore, provides greater scope for investment as a continued business can offer a fair return on capital.

4. **Greater Capital**—A public limited company can issue shares and debentures to the public. It can, therefore, raise a large amount of capital.

5. **Transferability of Shares**—Shares of a public company are freely transferable and so the savings of the investors are not permanently blocked. This feature of a company offers greater scope for investment and gives mobility and liquidity to the capital.

6. **Centralised Control**—Shareholders in a company cannot conduct the business of the company. Elected representatives of the shareholders form a board and the board of directors can manage the

affairs of the company. This feature of centralised control is responsible for its efficient management.

7. **Diffusion of Risks**—Diffusion of ownership in a Public Company facilitates the spreading of risks over a large number of persons. Diffusion of risks enables a company to take greater risks and operate a large business.

8. **Scope for Expansion**—A company with limited liability and greater capital and credit resources can offer greater scope for expansion of the business.

9. **Facilities to Small Investors**—An investor with small capital can also invest in the capital of a company as the share capital is divided into shares of small amount.

10. **Increased Reputation**– A public company is a registered body and is controlled by the Government. This increases public confidence and its reputation.

Disadvantages—The following are the disadvantages of company form of organisation :—

(1) **Expensive Formation**—Company formation is complex and expensive. It cannot be formed easily and quickly as legal formalities are required to be observed for its registration and standing of the business.

(2) **Oligarchic Management**—Although democracy has been introduced in company management, actually management is oligarchic in nature. The whole affairs of the company are controlled by a few persons. A set of directors can do anything, within the limits of the Companies Act. In fact, shareholders who do not know each other and are widely separated cannot choose but elect the same set of persons as directors.

(3) **Separation of Ownership and Control**—Shareholders in a company are not allowed to take part in the management of the business Directors appoint salaried managers to conduct the business. Therefore, unlike partnership or sole proprietorship, owners cannot establish direct relationship with the employees and customers. This feature brings in manifold problems in company management.

(4) **Inflexibility**—Company organisation, particularly public companies, cannot quickly adjust with the changing conditions in the market because of its complex structure and legal obligations. It has, therefore, less flexibility in management.

(5) **Government Control**—Although government regulation increases public confidence, the public companies are so much controlled by the Government that they cannot function independently and utilise skill and judgment for improving managerial efficiency.

(6) **Others**—Minority shareholders are oppressed and have no say in the management of the company. Moreover, it is not suitable for a business which requires direct relationship with customers or sells out personal skill.

CO-OPERATIVE FORM OF ORGANISATION

Meaning and Essential Features

A co-operative society is a voluntary association of persons who undertake business activity not for making profit but for benefiting themselves through self-help and co-operation.

In all societies having capitalistic bias certain persons, namely, workers, artisans, primary producers, farmers and consumers are sometimes exploited. To avoid this exploitation and also for their welfare co-operative societies are formed.

Its **essential features** are as follows—

(1) It is a voluntary association whose membership is open to all.

(2) Its primary motive is not profit-making but social welfare through mutual help and co-operation.

(3) Honesty and mutual trust are the important basis on which co-operation stands.

(4) Ownership is not separated from management or control. Members of the co-operative society usually participate in the management of the business.

(5) Concentration of ownership and necessarily of power is eliminated by restricting shareholding.

(6) Co-operative societies are governed by Co-operative Societies Act.

(7) The liability of members may be limited or unlimited. But in case the liability is limited, the word 'limited' is added with the name of the co-operative society.

(8) At least ten persons are required for the formation of a society.

(9) The co-operative societies may or may not have share capital. In case of an association undertaking business share capital is necessary.

(10) Share capital is divided into number of shares and each member holds one share or more. Shares are not transferable but the society can get back the shares.

(11) It has a Board of Directors or Committee of Management and the directors or committee members are elected from among the members.

(12) It has a legal entity and a common seal.

Different types of Co-operative Societies

(1) **Producers' Co-operative**—In villages poor artisans and in urban areas industrial workers form this type of co-operative. Their main aim is self-help and avoidance of exploitation from rich capitalists. This is also formed for securing economies of large scale production and increasing competitive strength in the market.

(2) **Consumers' co-operative stores**—The main purpose of this type of co-operative is to provide services of retail business. It sells commodities at cheaper prices to its members. It can thus avoid middlemen's profit by purchasing commodities in large quantity from the manufactures and selling those articles directly to the members. Generally, products required in every day life are dealt in by these co-operatives.

(3) **Agricultural Marketing Co-operative**—This type of co-operative is formed for the purpose of selling agricultural products in the market. Poor farmers do not usually get adequate prices for their products. By this co-operative they can increase their competitive strength in the market and can sell their products at reasonable prices. Sometimes, they open retail shops for selling their products.

(4) **Co-operative Credit Society**—This is a financial organisation and its main objective is to provide credit facilities to its members. This type of co-operative is formed both in rural and urban areas. In villages it is known as primary society and in cities it is called co-operative bank. It secures savings of its members and gives loans on favourable terms and conditions.

(5) **Service co-operative**—Co-operative insurance societies, housing societies, transport societies etc. are included within this type of co-operative society. Its main purpose is to provide services at cheaper rates to its members.

(6) **Multipurpose Co-operative Society**—At present multipurpose co-operatives have been developed for the purpose of fostering different objectives. Usually in villages the poor farmers like to form one type

of co-operative which can provide different services simultaneously. This type of co-operative is formed for various purposes, namely, it gives loans, distributes fertilisers, helps members in purchasing machinery and undertakes selling of the products in the market.

Company and Co-operative Society—Differences and Similarities

The following **points of distinction** between a company and a co-operative society may be stated as follows :—

1. **Formation**—Formation of a co-operative society is not very complex and expensive. It can be established at any time by registration. But the formation of a joint stock company is both complex and expensive.

2. **Limited Liability**—The liability of the members of a co-operative may or may not be limited, but the liability of the shareholders of a company is limited.

3. **Regulation by Act**—Companies are governed by the Companies Act, whereas co-operative societies are regulated by the Co-operative Societies Act.

4. **Objective**—Co-operative societies are formed not for the purpose of making profit but for the benefit and welfare of the members and they provide various services to their members. But a joint stock company is formed for the purpose of making profit and to pay dividends to its members.

5. **Transferability of Shares**—Shares are transferable in the case of a public company but in the case of a co-operative society shares are not transferable. A co-operative society can, of course, get back its shares from any member.

6. **Number of Members**—In a co-operative society the minimum number of members is ten and there is no maximum, whereas in the case of a public company the minimum is seven and there is no maximum and in the case of a private company the minimum number is two and the maximum is fifty.

7. **Management**—Management of a co-operative society is democratic in nature and the members can take part in the management of the business, whereas in the case of a company, management is oligarchic in actual practice and the shareholders cannot take part in the management of the business. In a co-operative society, members are known to each other and so democratic management is possible but in the case of a company shareholders are not known to each other and hence management is likely to be oligarchic.

8. **Other facilities**—A co-operative society need not pay income-tax in certain cases, registration fees and stamp duty but these are to be paid in the case of a company. Certain other legal formalities are also not required in the case of a co-operative society.

Similarities—

1. In both the cases registration is necessary and both a company and a co-operative society acquire legal entity.
2. As in a company, a co-operative society has a Board of Directors and the directors are elected from among the members.
3. In both the cases membership is acquired by purchasing shares
4. As in the case of a company, a co-operative society may have a share capital which is divided into a number of shares.
5. As in the case of a company, the liability of the members of a co-operative society may be limited.

Advantages and Disadvantages of Co-operative Form of Organisation.

Advantages—The following are the advantages:

1. **Benefit and Welfare**—Co-operatives are formed not for making profit but for the benefit and welfare of their members. Their main objective is to provide services to their members.

2. **Democratic Management**—In a co-operative, management is democratic and every member is given equal benefit and provided with equal opportunity. As the members are known to each other democratic management is possible in a co-operative.

3. **Avoidance of Exploitation**—In all countries having capitalistic bias, farmers, workers and artisans are sometimes exploited. This exploitation is avoided by the formation of co-operatives. In a co-operative, goods and services are produced and rendered by the members themselves and they also arrange for their sales.

4. **Inexpensive Production**—As the members themselves arrange for production and distribution of goods and services, production costs and other expenditures are very low.

5. **Reduction in inequalities**—By the formation of co-operatives inequalities in income and wealth can be reduced.

6. **Supply of Goods and Services at Cheaper Prices**—In a co-operative, as the members themselves arrange for production and sale of goods and services, and as the production costs are low, goods and services are supplied at cheaper prices.

Disadvantages—The following are the disadvantages :

1. **Mismanagement**—Most of the co-operatives in our country suffer from mismanagement. These co-operatives cannot afford to appoint expert managers. Managerial skill of the members is also lacking.

2. **Rivalries**—Rivalries and the absence of the spirit of co-operation are responsible for the dissolution of many of the co-operatives in our country.

3. **Competition from large industries**—Most of the co-operatives being operated on a small scale cannot stand competition from large industries. Hence, they suffer losses and ultimately face dissolution.

4. **Financial Difficulties**—As the co-operatives are formed by poor producers, farmers and artisans, much capital cannot be pooled by them. Moreover, they cannot get adequate loans as they are unable to provide adequate securities.

5. **Non-availability of Economies of Production**—As most of the co-operatives are organised on small scale, economies of large scale production cannot be secured.

Questions

Essay Type

(1) What do you mean by Partnership Deed? What matters are included in a Partnership deed?

[Ans. Partnership Deed]

(2) Write what you know about rights, duties and liabilities of partners.

[Ans. Rights, Duties and Liabilities]

(3) What are the advantages and disadvantages of partnership business?

[Ans. Advantages and Disadvantages of Partnership]

(4) What is a company? What are its important features?

[Ans. Definition and Features of joint stock company]

(5) Point out the distinction between a public company and a private company.

[Ans. Distinction between a public limited company and private limited company]

(6) What procedure is followed for registering a limited company?

[Ans. Registration]

(7) Point out the distinction between a company and a partnership.

[Ans. Distinction between partnership and company]

(8) What are the advantages and disadvantages of company form of business ?

[Ans. Company—advantages and disadvantages]

(9) Distingiush between a partnership and a company in regard to their capitals, control and profit. [H. S. 1978]

[Ans. Distinction between partnership and company]

Short Answer Type

(1) What is Soleproprietorship business ? What are its merits and demerits ?

[Ans. Features—Advantages—disadvantages]

(2) What is Joint Hindu Family Business ? What are its advantages and disadvantages ?

[Ans. Definition—Advantages—Disadvantages]

(3) What is Partnership business ? What are its important features ?

[Ans. Definition and Essential Features]

(4) Is registration of partnership compulsory ? How is partnership business registered ? What is the effect of non-registration ?

[Ans. Registration of a Partnership Firm]

(5) Under what grounds a partnership firm is dissolved ? For what reasons can a court dissolve a partnership firm ?

[Ans. Dissolution of Partnership Firm]

(6) What is Partnership ? Point out the distinction between partnership and Sole-proprietorship business.

[Ans. Definition and Essential Features—Distinction between Partnership and Sole-proprietorship business]

(7) Clearly bring out the distinction between Partnership and Joint Hindu Family business.

[Ans. Distinction between Partnership and Joint Hindu Family business]

(8) What is a Company ? What are its important features ?

[Ans. Definition and Features of Joint Stock Company]

(9) What is a Memorandum of Association ? Point out the distinction between a Memorandum of Association and Articles of Association.

[Ans. Memo. of Association—Distinction between Memorandum and Articles of Association]

(10) What is Articles of Association ? What points are included in the Articles of Association ?

[Ans. Articles of Association]

(11) What is a Prospectus ? What are the contents of a prospectus ?

[Ans. Prospectus]

(12) How many types of shares now can a public limited company issue ?

[Ans. Different Types of Shares]

(13) Discuss the merits and demirets of preference and Equity shares.

[Ans. Preference Shares—advantages—disadvantages—Equity shares—advantages and disadvantages]

(14) What is Debenture ? How many types of Debentures are now issued by a public limited company ?

[Ans. Debenture—Different Types of Debenture]

(15) Show the distinction among a stock, share and a Debenture.

[Ans. Distinction between a share and stock—Distinction between a share and Debenture]

(16) Discuss the nature of management of a limited company.

[Ans. Nature of Management]

(17) How are directors of a company appointed ? Discuss what do you know about their powers and functions.

[Ans. Board of Directors—Appointment—Powers and Functions of Directors]

(18) Write what you know about the duties and liabilities of Directors.

[Ans. Board of Directors—Duties and Liabilities]

(19) What is a Co-operative Association ? What are its main features ?

[Ans. Co-operative Association—Meaning and Essential Features]

(20) What are the merits and demerits of a Co-operative Association ?

[Ans. Co-operative—Advantages—Disadvantages]

(21) Write short notes on—(a) Managing Director, (b) Manager, (c) Statutory Company, (d) Share certificate, (e) Share warrant, (f) Minimum Subscription, (g) Different Types of Share Capital, (h) Multipurpose Co-operative Society.

(22) What is a Co-operative Society? What are the advantages and disadvantages of Consumers Co-operative?

[Ans. Meaning and Essential features—First Para—Consumers Co-operative—Home Trade—First Paper]

Objective Type

(1) Is registration of partnership business compulsory?

(2) Is registration of company business compulsory?

(3) What are two important documents of company business?

(4) What is the maximum number of members in a private limited company?

(5) What is the purpose of a Co-operative Association?

(6) Can a public limited company issue deferred share?

(7) Which type of share a company redeems?

(8) Can a public limited company start its business after registration?

CHAPTER IV

STATE ENTERPRISE

Meaning and Purposes

State enterprise means an enterprise which is owned and managed by the state. At present, in our country certain state or public enterprises are wholly owned and managed by the Central Government, namely, Defence Factories, Railways, Airlines etc. Some enterprises are owned jointly by the State Government and the Central Government, for example, irrigation and power projects, aircraft factory, etc. Certain other enterprises are owned jointly by the Central Government and private companies but controlled by the Central Government, namely, ship-building factory e. g. Hindusthan Shipyard (P) Ltd. which is owned jointly by the Central Government and the Scindia Steam Navigation. Different State Governments have also established many enterprises for economic development of the states.

Our country was under foreign domination for more than two hundred years. The state policies of the then Indian Government were simply to exploit the resources of the country for the benefit of the industries in the U.K. After independence state policies are now directed towards removal of poverty of the masses. Five Year Plans have also been undertaken for expeditious economic growth. During plan period, our Government announced that it would gradually introduce in India a socialistic pattern of society. Socialistic pattern of society, in accordance with the Government's explanation, signifies the gradual extension of the public sector. In two successive industrial policies of 1948 and 1956 the Government announced its intention to extend the public sector and for that purpose mentioned categorically the industries which would be developed exclusively by the Government.

The Government does not want any of the economic extremes—the extremes as we find in Soviet Russia and in the United States of America. It wants to reap the advantages of industrial development both in the private sector as well as in the public sector. It wants to build up an industrial base through the public sector. For this purpose, the Government has brought under its exclusive control the development of certain industries, namely atomic energy, iron & steel, machine building, transport and communication etc.

Moreover, State is participating in those industries which require greater capital investment and also lacking in immediate profitability.

Although the Government wants industrial development in the private sector, it does not want private monopolies to prevent concentration of wealth in a few hands. That is why, industries controlled by private monopolies are likely to be nationalised by the Government.

Besides these, public utility concerns, (namely, railways, posts and telegraphs) industries of national importance (viz., defence, drugs etc.), and banking institutions are now controlled by the Government.

For controlling prices, trading operations for export and import and for creating employment opportunities, state investments are made and state enterprises have been developed.

Forms of Organisation

At present the following forms have been introduced for the management of state enterprises—

(1) Departmental Management (2) Board Management
(3) Public Corporation (4) Limited Company.

(1) Departmental Management

Features—(a) This type of enterprise is managed by a government department, for example, Posts and Telegraphs Department, All India Radio etc.

(b) Its management and control are entrusted to a particular minister.

(c) It has no financial autonomy. All receipts are deposited with the treasury and the sums needed for its expenditure are appropriated in the general budget placed before the Parliament every year.

(d) It is regarded as a part of government administration.

(e) It enjoys sovereign immunity.

Advantages—(a) These departments are under direct control of the Government. Therefore, the Government can give shape to its policies through these departments.

(b) Important information can be kept secret in this type of management.

(c) Departmental management is very suitable for distribution of food and other necessaries in times of emergency.

(d) Its working can be criticised in the Parliament and hence its weaknesses and failures can be brought to the notice of the general public.

Disadvantages—(a) On account of frequent changes in the Government under democratic set up, the Government cannot give shape to its long-term policies through these departments.

(b) It suffers from managerial inefficiency due to bureaucracy, red tapism and favouritism.

(c) This type of management is suitable for the administration of the state but not for the management of the commercial business.

(d) Prompt decisions cannot be taken as the decisions are made through parliamentary procedures.

(e) Management lacks flexibility and hence cannot be adjusted quickly to the changing conditions in the market.

(2) **Board Management**—

Government enterprises are sometimes managed by different board, namely, Railway Board, State Electricity Board etc.

Its control and management are entrusted to a board of members who are nominated by the Government. Private persons are also sometimes nominated in the Board. The board is also under the direct control of the Government. Since it is not different from departmental management, it enjoys all the advantages and suffers from the same type of disadvantages as we find in departmental management.

(3) **Public Corporation**—

A public corporation is a state enterprise established by the special act or statute for achieving certain national objectives. Life Insurance Corporation, Indian Airlines Corporation, Domodar Valley Corporation, etc. are examples of public corporations.

Features—

(a) Public corporation is established by the special act of statute.
(b) It is registered as an autonomous institution and hence is not under direct control of the Government.
(c) It has also financial autonomy. It has a share capital divided into shares which are taken up by the Government and/or by the institutional investors.
(d) It has a board of directors who are nominated by the Government.
(e) It does not enjoy sovereign immunity. It is treated as a private institution liable to pay taxes to the State.
(f) It does not make profit but achieves certain important national objectives.

(g) It has a legal entity and can sue and can be sued and can own property in its name.

(h) Employees are appointed in accordance with the rules of the corporation.

Advantages—(a) It has been so designed as to combine managerial efficiency of a private enterprise with service motive of a public enterprise.

(b) The most important advantage of a public corporation is that it is regarded as an autonomous institution and is not subject to governmental interference in its day to day affairs.

(c) It also enjoys financial autonomy like any other private enterprise and its necessary finance is not appropriated in the general budget.

(d) A report of its workings is placed before the Parliament by the Central Government.

(e) An audit report in respect of the accounts of the corporation is also placed along with comments upon the report by the Auditor and Comptroller General of India.

(f) Bureaucratic management, red tapism and favouritism can be avoided as it is not under the direct control of the Government.

(g) The corporation enjoys freedom in administration and is, therefore, not under direct control of the Government. The Government can give shape to its long term economic policies through this corporation.

(h) Managerial efficiency and flexibility can be secured in public corporation as it is designed on the model of a private enterprise.

Disadvantages—(a) Although the special act by which it is established provides for its autonomy or freedom in administration, its broad policies are formulated by the Government and ministerial interference in its day to day affairs is also noticed.

(b) All the directors of a public corporation are nominated by the Government. These directors are administrative officers and not businessmen. As they have no business acumen, they cannot manage it efficiently.

(c) It is not so much flexible as a joint stock company in the private sector or a government company, as changes in its constitution cannot be made without amending the special legislation and the amendment of any act requires long drawn parliamentary procedures.

(d) Problem also arises in respect of public accountability. Although a report of its workings is placed before the Parliament by the minister in charge, full information is not given. Moreover, successes are magnified in the report but failures are not mentioned.

(e) It is always organised on a big scale and hence managerial difficulties arise on account of inadequate co-ordination.

(4) Government Company—

Government Company is a state enterprise and is established by registration under the Companies Act, 1956 for achieving certain economic objectives. Hindusthan Steel Ltd, Oil India Ltd, Sindri Fertilisers and Chemicals (P) Ltd. etc. are the examples of Government Company.

Features—

(a) It is established by registration under the Companies Act, 1956. It may be a private limited or public limited company.

(b) It has its own memorandum of association and articles of association.

(c) It has its share capital divided into number of shares which are wholly owned by the Government, or partly by the Government and partly by private individuals. In the latter case, the Government contributes not less than 51% in the share capital of the company.

(d) It has a board of directors and the directors are mostly nominated by the Government.

(e) All the share except one are held in the name of the President of India. That is why, annual general meeting of such a company is not required to be held but a report of its workings is placed before the Parliament.

(f) An audit report is also placed before the Parliament along with comments of the Comptroller and Auditor General of India.

Advantages—

(a) Government companies are suitable for the management of state owned commercial business. In fact, government companies have been established in our country for running industrial and commercial concerns.

(b) It is also regarded as an autonomous institution like any other company in the private sector and is not subject to ministerial interference in its day to day affairs.

(c) It has flexibility as the changes in its constitution can be made by the alteration of its memorandum of association.

(d) It has been designed to integrate the managerial efficiency as it is found in the private sector with the no-profit motive of the public sector.

(e) As it has freedom in administration and is not under the direct control of any government department, bureaucratic management, red-tapism and favouritism can be avoided.

(f) Government companies can attract more capital particularly foreign capital.

Disadvantages—

(a) Although it enjoys freedom, actually ministerial interference is noticed in its day to day affairs.

(b) All the directors in a government company are nominated by the Government. These directors have no business experience and hence cannot manage commercial business efficiently.

(c) The practice of establishing private limited government companies has been criticised in many quarters on the ground that it may not discharge responsibilities as required under the Constitution.

(d) Problems also arise in respect of public accountability. Although a report of its working is placed before the parliament, full information is not given in the report on the ground that it may hamper autonomy of the company.

(e) The accounts of the government companies are not audited by the government auditors. Only the Auditor General can comment upon the report. As a result, general public may not get full information in respect of the net results of the business conducted by the government companies.

(f) It also suffers from top heavy administration and usual managerial inefficiency of the public sector.

But government companies with autonomy and flexibility can be operated efficiently overcoming its disadvantages and weaknesses. In view of the government's responsibility of industrial development as considered in the industrial policy, government companies would be more suitable for running industrial undertaking.

Advantages of State Enterprise

The following are the advantages of state enterprise—

(1) **Objective :** The objective of a state enterprise is not to make profit but to deliver goods and render services to the nation at reasonable prices. Its aim is also to achieve economic development by the establishment of industrial and commercial enterprises and to create employment opportunities.

(2) **Regional Development of Industries** : It fosters balanced and regional development of industries. It aims at dispersal of industries

through the setting up of public enterprises in those areas which are economically backward.

(3) **Reduction in Inequalities of Income and wealth :** It prevents concentration of wealth in the hands of a few monopolists. This reduces to a great extent the disparities in income and wealth.

(4) **Prevention of Private Monopolies :** It checks and prevents malpractices of private monopolists by doing business in lines of trade where private monopolies have been established.

(5) **National Interest :** The motive of state enterprises is not to make profit but to look after social interest. National interest and not the private gain stands above everything in any type of state venture.

(6) **Development of Heavy and Basic Industries :** Development of heavy and basic industries requires so huge amount of capital and as these are not immediately profitable, only state can develop such industries. These are key industries and cannot be left to the initiative of the private sector.

(7) **Inability of the Private Enterprise :** State enterprises are also necessary in those cases where private entrepreneurs cannot show their worth. These are needed when private enterprises are run inefficiently and simply to suit private purposes.

(8) **Import and Export Business :** Sometimes state undertakings are established for dealing with the state ventures of the socialist countries. The very purpose of setting up of the State Trading Corporation is to have economic dealing with the socialist and communist countries.

(9) **Increased Revenue of the Government** : Although profit making is not the motive of the state undertaking, it does not mean that public enterprises do not make profit. This profit may, therefore, increase the revenues of the state.

(10) **Planned Economy :** State undertakings are necessary in a planned economy. Economic plan of a country is given shape to through state enterprises.

Disadvantages of State Enterprise

The following are the disadvantages of a state enterprise—

(1) **Lacking Managerial Efficiency :** Since there is no profit motive, managers of a state undertaking do not always remain alert and hence managerial inefficiency is very often crept in.

(2) **Government officers :** The management of state enterprises is entrusted to the administrative officers. These officers are not businessmen. They have no business experience and acumen. They, very often, fail to manage efficiently commercial business.

(3) **Bureaucratic Administration :** Though freedom is granted to public enterprises, frequent intervention by the government in the management of state enterprises brings in bureaucratic administration. Bureaucratic control stands in the way of efficient management of the enterprise.

(4) **Top Heavy Administration :** State enterprises are very often accused of having top heavy administration and whatever profit these enterprises make is eaten away by ever increasing managerial cost.

BUSINESS COMBINATION

Expansion of the business can be brought about both internally and externally. Internal expansion, as we have already noted, signifies growth of a business unit from small scale to large scale, whereas external expansion means growth of business through combination with other firms.

Combination means not only unification or amalgamation of different business firms, but it also signifies agreements among business units to control prices and production, to pool income and divide the market. But in all cases different business firms are brought under single control to serve a particular purpose.

Meaning of Plant, Firm and Industry

(1) Plant means a single factory, a mill or a mine etc.

(2) Firm means a business unit owning and managing one or more plants.

(3) All the firms or plants, producing similar products or processing similar materials, taken together are known as Industry. For example, cotton textile industry is the aggregation of the firms cultivating raw cotton, producing yarns and weaving cloths.

Causes of Combination

The following are some of the important forces that are responsible for effecting combinations among business firms—

(a) **Competition leads to Combination**—Cut throat competition among business firms may, sometimes, lead to combination. Tendency of the modern business is to grow larger in size and to sell large quantities at lower prices. In this way, all firms secure economies by increasing the scale of operation and try to maintain steady market for their

products. Keen competition may force many weak firms to go out of production. Other firms, particularly those who have adequate funds may bring in changes in the technique of production and thus instal new plants and machineries. Large firms again undersell their products in order to have a steady market. During the period of depression when bad market condition prevails naturally demand for the products fails. But the large firms cannot reduce their output on account of production complexities. In this situation they are, sometimes, forced to sell their products below the cost price. In order to avoid this cut-throat or self-destructive competition, business firms form combinations.

(b) **Economies of Large Scale Production**—Business firms expand for the purpose of securing economies of large scale production. Expansion can be brought about by effecting combination. A small firm cannot enjoy economies in production. But if many small firms are combined to create large scale organisation, the large combined business can secure for them economies in production, management, finance and also marketing.

(c) **Pooling of Individual Abilities**—A businessman may not have all the qualities. He may have technical skill but may not possess managerial capacity. If the business firms effect combination, a few special abilities of the combining firms can be pooled to bring about efficient administration of all affairs. Scarcity of business talents is an important cause of centralisation of power.

(d) **Monopoly profit**—Combinations are, sometimes, effected for the purpose of making monopoly profit. Profiteering is the important motive behind the formation of cartel combinations which can reap larger profits by controlling output, prices of the products, and effecting common sales.

(e) **Improvement in Transport and Communication**—Business firms have now come very close to each other on account of improvement in transport and communication system which has shortened the distance of different markets situated in different countries. As a result, international trade has been developed and business units of the home country may, sometimes, form combinations to face competition from foreign countries.

(f) **Government Regulations**—Governments of many countries sometimes insist on forming combinations. After the First World War the German Government encouraged the formation of cartel combinations in industries. The Central Government in our country insists on effecting amalgamation of small firms with bigger ones to avoid uneco-

nomic or inefficient units in many industries. The Steel Corporation of Bengal was merged with Indian Iron and Steel Company by virtue of an ordinance promulgated by the President of India in 1953.

(g) **Modernisation of Industries**—Industries have now been modernised to face competition in the international market. Modernisation or rationalisation always embraces industrial combinations. By such combinations simplification of processes, specialisation and standardisation of products can easily be brought about.

(h) **Love for Power and Prestige and Desire for Accumulation of Wealth**—Love for power and desire for wealth accumulation are again other reasons for forming combinations. A large firm becomes larger through combination with other firms, controls the entire supply of a particular product, makes larger profits, accumulates wealth and eventually becomes all powerful.

Types of Combination

Combinations are of three types—

(1) Horizontal, (2) Vertical and (3) Circular.

Horizontal Combination

Combination of different firms producing the same or identical products or engaged in the same line of business or operating in the same stage of production is known as Horizontal Combination. For example, A. Co., B. Co. and C. Co. are all cotton mills producing the same products, namely, yarns. If these three cotton mills combine, the combination is said to be Horizontal type. It also brings similar firms under single control by regulating output, controlling prices, dividing market and effecting common sales. If all the oil companies in India agree to sell petrol at the same price, horizontal combination is said to be formed.

Advantages—The following are the advantages of horizontal combination—

(1) As several units are brought under single control, economies in management, marketing and finance can be secured in this combination.

(2) By controlling the entire supply of a product it can make larger profits.

(3) This type of combination is effected for the purpose of protecting the legitimate trade interests.

(4) It prevents over-supply of a product and encourages modernisation.

(5) It can avoid destructive competition.

(6) Benefits of research undertaken by one unit and business information can be given to all the firms of the Combination.

Disadvantages—

(1) If this combination is effected among manufacturing units, it may not get the regular supply of raw materials.

(2) Similarly, the combination of several manufacturing units may not be assured of regular market.

(3) It encourages monopoly which is socially undesirable.

(4) It also suffers from certain disadvantages of large scale production, namely, managerial complication, lack of co-ordination etc

Vertical Combination

Combination of different firms engaged in the different or successive stages of production within the same industry is known as vertical combination. In other words, vertical combination brings under single control successive stages of production of an industry. For example, A. Co., is cultivating raw cotton, B. Co. is producing yarns and C. Co is engaged in weaving cloths. The combination of these three companies brings in vertical combination.

In the process of expansion when a manufacturing concern controls the supply of raw materials or combines with a raw material producing unit or arranges for the production of its own raw materials. **Backward Vertical Combination** is created. For example, a cotton mill may arrange the cultivation of raw cotton. On the other hand, when a manufacturing unit sells its own products or combines with a selling organisation of its products, **Forward Vertical Combination** is effected. For example, Bata Shoe Company which sells shoes through its own retail shops.

Advantages—(1) It secures economies on purchase, sale, storing and on transportation.

(2) As it avoids middlemen, it can sell its products directly to the consumers at a cheaper price.

(3) It can secure a regular supply of raw materials and is also assured of markets and hence, it can maintain a continuous flow of production.

(4) As the successive stages of production are brought under single control, it can secure also certain economies in production.

(5) It becomes a self contained unit and hence, it can produce commodities at lower cost and maintain a regular supply of its products in the market.

Disadvantages—(1) Although it becomes a self contained unit, it cannot avoid destructive competition.

(2) The entire production will be stopped if there is any dislocation in any stage.

(3) It fails to secure all the usual economies of large scale production as the expansion is brought about by linking up the successive stages of production.

(4) Lack of co-ordination between different stages of production may also be noticed.

Circular Combination

Circular combination is effected when (1) dissimilar business units are brought under single management or (2) links are established between different units through using ancillary or auxiliary products and services or (3) a connection is established through the requirement of the same manufacturing process or marketing channels. This type of combination was brought about by the managing agents in our country.

It may be of lateral and diagonal types. Railway, Steamer and Bus companies may be united to form **lateral combination.** When a Railway company owns its ancillary service units, a **diagonal combination** is said to be effected.

Forms of Combinations

Combination may take place in different forms. The classification of combinations is given below—

Simple Association—
(1) **Trade Association**
(2) **Trade Union**
(3) **Chamber of Commerce**
(4) **Informal Agreement**

Federation—
(5) Cartel
(6) Pool
(7) Corner or Ring

Consolidation—
(8) Trust

(a) Partial—
(9) Community of Interests
(10) Holding company

(b) Complete—
(11) Amalgamation
(12) Merger.

(1) **Trade Association**—It is an association of merchants and industrialists to look after their own business interests. It is different from usual combinations of business firms which are effected for pooling resources to make larger profits. Business men engaged in the same line of business meet frequently to discuss matters of common interests particularly in regard to raw-materials, labour, market, government policies etc. The main task of an association is to collect and disseminate business information and information in respect of credit facilities, marketing, researches, promotional facilities etc. Such an association also deals with labour relations, advertising and appoints arbitrators or otherwise takes necessary actions to settle disputes between member units. It explains to its members the implications of any legislations in respect of the trade and industry and mobilises opinions to protest against any governmental measures to curb the rights of the businessmen. Strictly speaking, it becomes the mouthpiece of a particular trade or industry.

Trade Associations may be local, national or international. Certain associations embrace only commercial and others include only industrial concerns. The important examples of trade associations are—Indian Jute Mills Association, Bombay Millowners Association, Calcutta Traders Association, East India Cotton Association, etc.

(2) **Trade Unions**—In a popular sense trade unions refer to associations of workers. But in accordance with the provisions of Trade Unions Act employers' associations are also called trade unions. Strictly speaking, it is an association of emplyees and is formed for safeguarding the interests of the employees.

(3) **Chamber of Commerce**—Chamber of commerce is an association of merchants, industrialists, financiers, professional persons and others engaged in commerce and industry. Chambers are usually formed for the promotion of trade, industry and commerce and for protecting business interests. Businessmen of the same trade and industry may form it or these may be formed on regional or on national basis. These associations are mostly registered as guarantee companies but some chambers are also formed as unincorporated voluntary associations.

The usual functions of the chamber of commerce are—(a) to collect and disseminate business information, (b) to advise the Government to initiate any legislation for the promotion of business or for protecting business interests, (c) to protest any legislation that may go against the business interests of the country, (d) to arrange for arbitration for the purpose of settling trade disputes, (e) to publish trade

reports and provide for researches, (f) to issue certificate of origin and (g) to standardise trade practices and to check unhealthy competition.

There are many all India Chambers of Commerce. Of these Associated Chambers of Commerce and Federation of Indian Chambers of Commerce and Industry were established long ago. Many local chambers are affiliated to the above all India chambers. In Calcutta there are many chambers and of these Bengal Chamber of Commerce, Bharat Chamber of Commerce, Bengal National Chamber of Commerce and Industry are important examples. At present, International Chamber of Commerce has been formed to promote international trade, to remove trade restrictions and to foster commercial relations between the countries.

(4) **Informal Agreement**—This is a very peculiar form of combination which does not refer to any association. Sometimes, businessmen or firms may agree informally to control output or to restrict price cutting or to fix minimum prices of the products or to divide the market or to control sales etc. As the agreements are informal in character, these can be revoked at any time. This form of combination continues so long as the businessmen honour the agreement. Although businessmen agree to restrict their independent actions on certain matters, yet individual identity of their firms is fully retained. These agreements are usually entered into by the local tradesmen. But these are also undertaken on national or international level

(5) **Cartel**

It is an association of independent firms which enter into contract for regulating output, for controlling prices and sales, for dividing the market and for fixing production quotas. Business units producing the same products or engaged in the same line of trade form cartel combintions. It is, thehefore, a horizontal type of combination. Combining units can retain their separate existence but they are to restrict their actions on certain matters according to the terms of the agreement. Cartels are called syndicates and essentially develop selling agencies. Strictly speaking, it is a sales association.

Cartelisation was first effected in Germany in the middle of the nineteenth century. After the First World War the German Government encouraged the development of cartel combinations for the purpose of reconstruction of the industries. Many new cartels were formed in German industries at that time. After the Second World War cartelisation was not given much importance. On the other hand,

many cartels were terminated and free competitions were encouraged. At present, again the cartels have been springing up. From Germany the cartel form was spread to the European and other countries. And now the international cartels have been formed to improve trade relations and to remove restrictions on inter-state trade and commerce.

Types of Cartel—There are various types of cartels of which the following are very important—

(a) **Output Cartel**—This type of cartel is formed simply to restrict output. The cartel organisation allocates quotas or fixed output for each member unit. Penalty is imposed, if the quotas are exceeded. Indian Jute Mills Association is an example of output cartel.

(b) **Market Cartel**—It is formed for the purpose of dividing the markets among the member units. Markets are divided on the basis of area. Associated Cement Co. and Dalmias formed this cartel in cement industry in our country.

(c) **Price Cartel**—When some business firms enter into contract to the effect that they would not sell their commodities below a minimum price, a price cartel is said to be formed. This type of cartel becomes ineffective if supplies are not controlled.

(d) **Sales Cartel**—This type of cartel maintains a selling agency. The member units entrust their sales functions to the cartel organisation. In other words, the cartel sells the products on behalf of the member units.

(e) **Cartel with a Selling Syndicate**—An effective and organised cartel combination was evolved in Germany in the form of participating cartel with selling syndicate. Cartel organisation fixed quotas of production for each unit. Penalty is imposed if quotas are surpassed and compensation is arranged if the quota is not fulfilled. Member units selll their products to the syndicate at a price above the basic cost. The syndicate sells the products and profits so earned are distributed among the member units. Manufacturing profits are retained by the individual units.

Advantages—

The following are the advantages of Cartel—(1) It secures economies in marketing and particularly reduces advertising and distribution expenses. (2) It avoids destructive competition. (3) Business firms can retain their separate existence. (4) Member firms can concentrate their efficiency in manufacturing side and entrust the sales functions to the cartel organisation.

Disadvantages—

(1) It creates monopoly, and hence, is responsible for exploitation of the consumers. (2) It perpetuates the sxistence of efficient units. (3) Economics of large scale production and efficiency in management canot be secured. (4) It restricts output and sometimes technical developments.

(6) **Pool**

Pools were originated in the U.S.A. There is basically no difference between cartel and pool. In other words, cartels in Germany are alternatively called pools in the U. S. A. After the American Civil War when there was a move among American Corporations to form combinations, the first method used to effect such combination was what is called pool.

Pool is an association in the form of federation promoted by the independent undertakings which enter into a contract for controlling output or for regulating prices or for dividing the market or for pooling profits etc. It is a horizontal type of combination as the business firms engaged in the same line of trade or producing the identical products usually form this combination. Combining units retain their separate existence. Only certain activities are co-ordinated by the federation. Pools were declared illegal by the American courts. The following are the different types of pooling agreements—

(a) **Output Pool**—It is formed for the purpose of regulating output so that there may not be any over production. Each member unit is given a quota and penalty is imposed if quotas are exceeded. It regulates output by distributing the total output among the member units on an agreed basis.

(b) **Market Pool**—It refers to the division of market among business units. The object of this pool is to check oversupply in one market by restricting the other units to sell their products in that market. The market is divided on the basis of customers or products or areas.

(c) **Profit or Income Pool**—It distributes profits or income earned by the central agency among the member concerns on an agreed basis. It secures the contracts first from different sources and distributes these contracts to different member units at a price lower than the contract price. The profit so made is shared by the member concerns. It may also undertake the selling of the products on behalf of the participating units.

(d) **Traffic Pool**—It refers to the pooling agreement entered into by the transport companies for the purpose of allowing each company

to handle a fixed percentage of available traffic. Shipping conferences are the examples of traffic pools. It may also pool the total freight earnings and distribute the same to the members in accordance with the capacity of the member companies.

(e) **Patent Pool**—Competing firms sometimes pool their patents for joint use.

Advantages—(1) It avoid cut throat competition. (2) It can easily be formed. (3) It makes larger profits and stabilises prices by restricting output and preventing oversupply in the market. (4) Participating units can maintain individual existence.

Disadvantages—(1) It is a very loose type of combination which can be terminated at any time. (2) It develops monopoly by restricting output and dividing market. (3) Consumers are exploited as they are required to pay high prices. (4) It gives no scope to the inefficient units to improve themselves.

(7) **Corner or Ring**—It is not an association but a device, very often antisocial in nature, by which some businessmen control the supply of a particular product to make larger profit. They purchase the major quantities of a particular product and then sell in the market at high prices to reap more profits. It usually charges high prices by creating artificial scarcity and hence, exploits the consumers.

(8) **Trust**

Trusts were originated in the U. S. A. To remove the weaknesses of the pooling agreements and trade associations trustee devices were found out by the American businessmen. The combination trust was evolved out of the business trust and voting trust. The Standard Oil Company in the U. S. A. was the first to apply this device and formed Standard Oil Trust which established monopoly in oil trade of the U. S. A. Since then many trusts were formed there to control various industries. Trusts were developed for five important causes—(a) avoidance of destructive competition, (b) extension of large scale production to the greatest possible limits, (c) for securing monopoly profits, (d) love for power and prestige and (e) making profits or promotion. Monopoly was the immediate motive behind the formation of big trusts. As the trusts were found exploiting the consumers and suppliers, the American courts declared it as illegal.

A combination trust refers to a monopoly organisation in which shareholders of the participating companies transfer the majority of their shares to a board of trustees established by them under a trust

agreement in exchange for trust certificates. A trust is defined as "a form of business organisation established through temporary consolidation, in which the stockholders of the constituent organisations under a trust agreement transfer a controlling amount of their stock to a board of trustees in exchange for trust certificates."

It means that the shareholders of the participating companies form a board of trustees. They transfer majority of their shares to this board under a trust agreement. The board issues certificates to the companies. "These certificates show their equitable interest in the income of the combination." Although individual companies are allowed to retain their separate legal entity, yet their business policies are controlled by the trust combination as the board of trustees nominates directors in the boards of directors of all these companies. Separate existence of the combining units is not lost but their internal administration is controlled by the combination.

A voting trust refers to a form of organisation in which the shareholders of the constituent companies transfer their voting rights to a board of trustees but their rights to sell the stock or to receive dividend are retained by them.

There is another type of trust known as Share Exchange Trust which is said to be formed when the companies forming the trust issue new shares and exchange them with each other.

Advantages—(1) It helps the extension of the large scale production to a maximum possible limit and hence, economies in production, management and marketing can be secured.

(2) By avoiding duplication of plant, advertising and selling efforts, it can eliminate wasteful competition.

(3) It leads to standardisation of products, as firms need not produce competing brands.

(4) It can stabilise the demand and supply for its products.

(5) It can enforce the closing down of the inefficient units or provide facilities for the improvement of their standard.

Disadvantages—(1) It leads to monopoly and exploits consumers, suppliers etc.

(2) It leads to concentration of wealth into a few hands.

(3) It usually maintains different prices for its products in different markets for eliminating local competing firms.

(4) It may exert unhealthy influence on the economic development of a country.

Distinction between Cartel and Trust

The following are the points of distinction between a cartel and a trust—

(1) Cartels were orginated in Germany, whereas Trusts were orginated in the U. S. A.

(2) Trusts were declared illegal by the American courts, but the German Government encouraged the development of cartel combinations.

(3) Cartel is a very loose type of combination and can be terminated at any time but the trust is a stronger and compact from of combination.

(4) Under cartel combination combining business units can retain their autonomy but under trust combination the participating units virtually lose their freedom of actions.

(5) Cartel combination is formed by the business firms engaged in the same line of business and hence, it is a horizontal or vertical combination.

(6) Cartel combination is mostly formed to control sales and so marketing economies are secured. But trusts can secure economies in production, management and marketing.

(7) All forms of business, namely, sole trading, partnership or companies can take part in cartel combination, whereas trusts can be formed only by the joint stock companies.

(8) Cartel perpetuates the existence of uneconomic units but the trusts can close down the inefficient units.

(9) International cartels are found but the international trusts are rarely found.

(10) Cartels create monopoly but are not antisocial in nature, whereas trusts very often adopt unfair practices.

Holding Company

When the trusts were declared illegal, the American businessmen in search of a legal and effective form of combination found out what is known as Holding Company. It is a form of combination which is brought about by the consolidation of a number of joint stock companies. In this combination a company known as holding company owns the controlling amount of shares or stocks of other companies known as subsidiary companies or subsidiaries. For example, A. Co. Ltd. owns the majority of the shares of three other companies namely, B, C and D companies. A. Co. Ltd. is said to be the holding company.

Companies Act, 1956 defines holding company as "any company

which directly or indirectly, through the medium of another company, holds more than half of the equity share capital of other companies or controls the composition of the board of directors of other companies. Moreover, a company becomes a subsidiary of another company in those cases where the preference shareholders of the latter company are allowed more than half of the voting power of the company from a date before the commencement of this Act."

Although subsidiary companies are allowed to have separate existence, their business policies are virtually controlled by the holding company. It brings about both financial and managerial integrations. A holding company may be established by the formation of a new company or an existing company may become a holding company by purchasing the shares of other companies.

Different type of Holding Company

(1) **Pure Holding company**—It is a holding company which holds only securities of subsidiaries but does not operate any business.

(2) **Mixed or Operating Holding company**—This type of holding company not only holds securities but also operates a business of its own.

(3) **Parent Holding Company**—A holding company is said to be a parent company when it creates one or more subsidiaries and holds the majority of their shares.

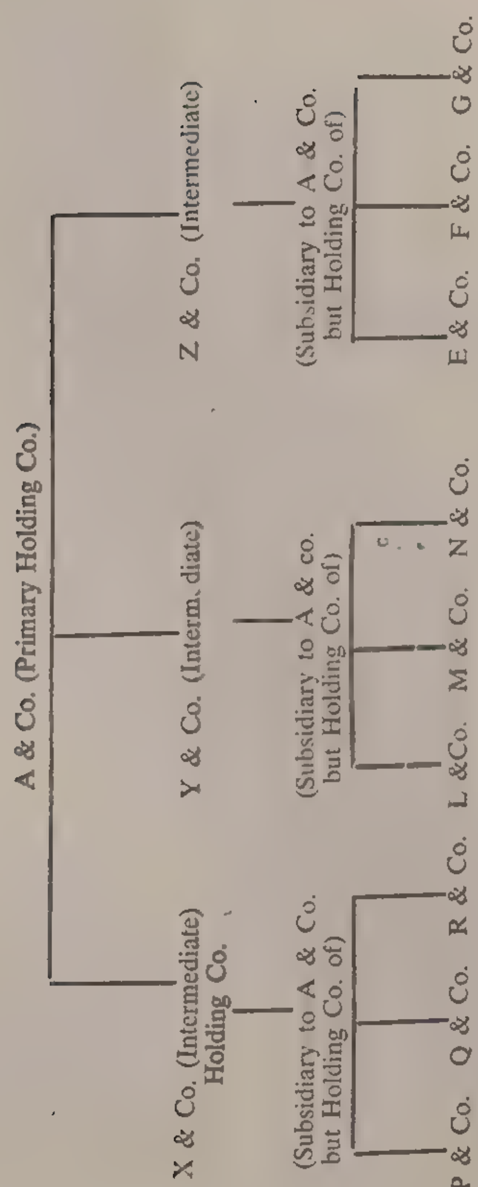
(4) **Consolidated or Offspring Holding Company**—When different companies create a new company by their consolidation and transfer controlling amount of shares or stocks to the new company, a consolidated holding company is formed.

(5) **Primary Holding Company**—It is a type of holding company which stands at the top of holding company structure.

(6) **Intermediary Holding Company**—When a holding company having many subsidiaries becomes a subsidiary to another holding company, it is known as intermediary holding company.

(7) **Finance or Investment Holding Company**—When a holding company merely holds securities of the subsidiaries for making profits only and does not like to have any control over them, it is known as finance or investment holding company.

But if an investment company holds majority of the shares of other companies, it is not said to be a holding company in accordance with the provisions of the Companies Act.



A & Co. (Primary Holding Co.)
X & Co. (Intermediate) Holding Co.
Y & Co. (Intermediate)
Z & Co. (Intermediate)
(Subsidiary to A & Co. but Holding Co. of)
(Subsidiary to A & co. but Holding Co. of)
(Subsidiary to A & Co. but Holding Co. of)
P & Co.
Q & Co.
R & Co.
L &Co.
M & Co.
N & Co.
E & Co.
F & Co.
G & Co.

Advantages—(1) It can easily be formed by purchasing or exchanging shares as it does not require approval of the shareholders of either holding or subsidiary companies. It's formation does not also need any legal sanction.

(2) It can avoid risks by undertaking business projects through subsidiaries and can also avoid competition by effective territorial allotment.

(3) It can enjoy the benefits of a joint stock company, namely, limited liability, procuring large amount of capital through issue of shares, management through board etc.

(4) It can easily reorganise the subsidiary companies by mere exchange of shares and can have centralised control over the whole affairs. This centralised control may bring in advantages of large scale production.

(5) It can protect its own goodwill and at the same time capture market by selling cheap products through its subsidiaries.

(6) Subsidiary companies are also benefited in various ways, On account of financial backing of holding company they can secure loans and advances on favourable terms and can achieve financial stability.

Disadvantages—(1) It facilitates the concentration of wealth in a few hands.

(2) It weilds much power without any responsibility.

(3) It allows the existence of inefficient units and becomes so large that it, very often, suffers from managerial difficulties.

(4) It cannot avoid unfair practices and manipulations of finances and policies.

(5) Minority shareholders of the subsidiaries are likely to be oppressed. The whole structure becomes very expensive, as it maintains many incorporated companies.

(6) Subsidiary companies are exploited on various ways. They are forced to give or take loans. Their business policies may be controlled for the benefit of the holding company and their financial interests are neglected by diverting their funds.

Distinction between Trust and Holding Company

The following are the points of distinction between a trust and a holding company—

(a) A trust combination is formed when the combining companies transfer the controlling amount of their shares to a board of trustees under a trust agreement, whereas a holding company is formed by purchasing shares of the subsidiaries.

(b) A trust is formed under a trust agreement but for the formation of a holding company agreement is not required. Permission from the shareholders is also not necessary.

(c) A trust is managed by a board of trustees, whereas a holding company is administered by a board of directors.

(d) A trust is usually an unregistered private organisation, whereas a holding company is always an incorporated body.

(e) Trusts were declared illegal in the U.S.A. but the holding companies were allowed to exist.

(f) Trust is a stronger and compact form of combination and cannot be terminated easily, whereas a holding company is a looser form and can be terminated by selling shares of its subsidiaries.

(g) A trust is always formed as a new institution but an existing company may become a holding company.

(10) Community Interests

Community of interests relates to the control of a good number of companies by a few directors or the holding of a greater amount of shares of a number of companies by some common shareholders. Haney defines it as "a form of business organisation in which, without any formal central administration, the business policy of several companies is controlled by a group of common stockholders or directors". R.N. Owens observes that community of Interest is "a harmonious relationship established between two or more companies as a result of the ownership of their stock by the same persons."

Community of Interests has usually been effected in three ways, namely, (1) Managerial Integration (2) Interlocking Directorates or Administrative Integration and (3) Financial Integration.

(1) **Managerial Integration**—Managing agents in our country formed a powerful community of interests by controlling and managing a large number of companies. Leading managing agency houses in India managed more than 250 companies.

(2) **Interlocking Directorates or Administrative Integration**—Community of Interests is also brought about by interlinking many companies through common directorship. A few persons are appointed as directors in the boards of directors of many managed companies. Managing agents nominated directors in all the managed companies and thus were responsible for effecting administrative integration.

(3) **Financial Integration**—By means of inter-company investment managing agents achieved this type of integration. Moreover, they also controlled many banking and financial institutions and insurance companies.

The important advantages of this form of combination are that a common business policy can be followed in all the companies and hence, output and prices can be controlled to check over-supply of a particular product and to bring about stability in price structure. Advantages of vertical integration can also be secured when successive stages of production of an industry are brought under common management.

This combination also suffers from certain demerits. Prices are controlled and finances are manipulated to exploit consumers and shareholders. It leads to the concentration of wealth and is responsible for the growth of monopolies.

(11) **Amalgamation and Merger**—When different business firms unite and form one new enterprise, it is known as amalgamation. For example, company A and company B decide to unite and form a new company called X Co.

When a big enterprise purchase one or more small enterprises, it is known as merger.

In case of amalgamation the combining units lose their identity but in merger the vendor concerns only lose their identity. The purchasing enterprise retains it as usual. But in both the cases there is complete consolidation or unification.

Questions

Essay Type

(1) In how many ways state enterprises are organized? Discuss their features.

[Ans. Forms of organisation—only Features]

(2) Discuss the features, advantages and disadvantages of Departmental Management and Board Management.

[Ans. Departmental organisation—Board management—Advantages—Disadvantages]

(3) What do you mean by Public Corporation? What are its features, merits and demerits?

[Ans. Public corporation—features—advantages—disadvantages]

(4) What do you mean by Government Company? Write what you know about its features, merits and defects.

[Ans. Government Company—Features—advantages and disadvantages]

(5) Indian Railways are managed by a board whereas Hindusthan Steel is a limited Company. What are the features, merits and defects of these two forms of state enterprises?

[Ans. Board Management—Government Company— Features—advantages—disadvantages]

(6) What is State Enterprise? What are its advantages and disadvantages?

[Ans. State Enterprise—meaning and purpose—advantages—disadvantages]

(7) What is Business Combination? What are the causes of business combination?

[Ans. Business combination—causes of combination]

(8) What is combination? Name the major forms of combination in business.

[Ans. Business Combination—Forms of Combinations]

Short Answer Type

(1) What is Horizontal Combination? What are its merits and demerits?

[Ans. Horizontal Combination — Advantages — disadvantages]

(2) What is Vertical combination? What are its merits and demerits?

[Ans. Vertical combination—advantages—disadvantages]

(3) What are Cartel and Trust? What are their advantages and disadvantages?

[Ans. Cartel and Trust]

(4) What is a Cartel? Point Out the distinction between a Cartel and Trust.

[Ans. Cartel—Distinction between a Cartel and Trust]

(5) What is Holding Company? How many types of holding company are found? What are its merits and demerits?

[Ans. Holding Company]

(6) What is Holding Company? Points out the distinction between a Holding Company and a Trust.

[Ans. Holding Company—Distinction between Holding Co. and Trust]

(7) Mention three different forms of state enterprises and give an example of each. State the main features of any one of these forms of organization. [H. S. 1978]

[Ans. Forms of organization]

Objective Type

(1) In what forms, at present, state enterprises in India have been organized ?

(2) Give two examples of Horizontal Combination.

(3) Give two examples of vertical combination.

(4) What are the functions of a Chamber of Commerce ?

(5) Give three examples of cartel combination in India.

(6) All the oil companies in India sell petrol at the same price. What type of combination do you call it ?

(7) A Steel plant has its own iron ore and coal mines. What type of combination do you call it ?

CHAPTER V

BUSINESS AND GOVERNMENT

State Participation in Industry, Trade and Commerce

During Nineteenth century free trade policy or Laissez faire was followed in different countries of the world. There was little state control over trade, industry and commerce. Development of trade, industry and commerce of the country was entrusted to the private initiative and enterprise. According to Adam Smith if individuals develop trade, industry and commerce for their own interest, this may lead to economic development which provides welfare to the millions. State control over trade and commerce is not necessary. State participation in these cases is unsuitable. The main function of the state should be to maintain law and order within the country and to repulse foreign aggression.

Though industry, trade and commerce were developed on account of following free trade policy, its evil effect was also noticed. Firstly, there was concentration of wealth and economic power in the hands of a few industrialists as a result of desparities in income and wealth. A few people became very rich. Secondly, a large number of persons gradually became poor and pauper. State control over trade, industry and commerce was considered indispensable in many countries to remove this situation. The concept of socialism was evolved. Socialism preaches that if the means of production and distribution are state owned, this may foster maximum welfare to the millions by reducing inequalities in income and wealth. When Soviet Union became a socialist state in 1917, many countries began to accept more or less of this theory.

At present state participation in trade industry and commerce is found in almost all the countries of the world. Even in the U.S.A. where private initiative and enterprise is given greater importance, state control over industry and commerce is gradually increasing. An eminent teacher in political science Professor Laski points out that free trade policy was shattered with the cessation of the first world war. Professor James Maynard Keynes, a British economist, observes that in the second decade of the twentieth century economic conditions were not suitable for following free trade policy.

In our country during long British rule resources of the country were not utilised for realising national objectives. By following the free trade policy, the then British Government used to export important and valuable resources to England. After independence Government of India considered state participation in trade, industry and commerce indispensable for achieving economic development to remove poverty of the masses. Since independence Government has been effecting economic development by means of undertaking five year plans. The Government declared that it would introduce socialistic pattern of society in India. The socialistic pattern of society means gradual extension of the public sector. In both the industrial policies of 1948 and 1965 Government categorically announced that industrial development in the public sector would be given greater importance. It also announced through these policies that certain industries would be developed only in the public sector. Government of India does not want any of the economic extremes as we find in the United States of America and the Soviet Union. It wants to develop industries both in the public and private sectors by introducing mixed economic system. For realising the above purpose how the Government is participating in the development of trade industry and commerce is enumerated below—

As Promoter : In many countries of the world, at present, Government is developing trade, industry and commerce. Government of India has declared in its industrial policy that certain important industries would be developed under the supervision and control of the government. For that purpose certain important industries like defence, atomic energy, iron steel, machine building, railway transport etc. are being developed in the public sector. Besides, industries like heavy machinery which require huge capital investment and which are not immediately profitable and also those industries where private sector cannot show their worth are being developed in the public sector.

Public sector in India is being extended not simply by nationalising existing private enterprises but also by setting up new enterprises. Government has already established various new industrial enterprises. Iron and Steel factories have been established in Durgapur, Rourkela, Bhilai, Bokaro etc. Heavy Engineering Corporation has been set up in Ranchi for manufacturing heavy machinery. Hindusthan Machine Tools, a government undertaking, has established factories at Bangalore, Panjub and Ranchi for manufacturing small machine tools and watches, Heavy Electricals Limited, a government of India undertaking at Bhopal is now making electrical equipments. Besides these, Government of India has also set up Chittaranjan Locomotive, Sindri Fertiliser

etc. Certain important private industrial enterprises have also been nationalised and brought under government control. Of these, the most important are coking and noncoking coalmines and foreign petroleum companies.

As Regulator : Governments of many countries are now controlling private industrial and commercial enterprises. Government of India wants to establish socialistic pattern of society. It means the increasing responsibility of the public sector in the industrial development of the country.

Though industries are being developed in the private sector, government now controls the activities of the private enterprises. It controls their activities by means of enacting Industries (Regulation and Development) Act, 1951. According to the provisions of this act., If any private enterprise is not managed properly, the Central Government can take over its administration for a period of five years. By virtue of this act, administration of Jessop Company and Indian Iron and Steel Company has been taken over. Moreover, Government is also controlling public limited companies by means of the provisions of the companies Act, 1956. Before bringing about any constitutional changes a public limited company must obtain approval from the Central Government.

As Arbitrator—To settle the dispute between labour and management in the industrial and commercial enterprises, government has taken various measures. Of these, the important are enactment of Industrial Disputes Act, peaceful settlement and provision of arbitration, enactment of Minimum Wages Act, Bonus Act, labour participation in management etc.

As Sharer—Government of India is participating in the industrial development along with private initiative and enterprise by introducing joint sector. Government of West Bengal has decided to set up a mini steel plant in the joint sector in the Purulia District. Many state governments have already established various industries in the joint sector. Government has also purchased shares of many private companies to encourage private initiative to expedite industrial development. The purpose of the industrial development in the joint sector is to encourage private initiative and enterprise in economic development and to prevent trading losses in the public enterprises. Managerial inefficiency is the important among many reasons for trading losses in the public undertakings. That is why, Government of India is setting up industrial and commercial enterprises along with industrialists and businessmen to induct private

experts in the administrative bodies of the public undertakings. The Government has also entrusted the responsibility of management of public undertakings to reputed private organizations. In this way Government is trying to remove managerial inefficiency in the public enterprises. This has enabled the state enterprises to make profit and to prevent trading losses.

Guidance and Assistance : Government is also guiding and assisting financially and otherwise the industrial concerns in the private sector. It is providing such guidance and assistance to the private industrial concerns for the purpose of industrial development according to five year plans. For this objective **Industries (Development & Regulation) Act, 1951** has been enacted. In accordance with the provisions of this Act, a **Central Advisory Council** has been appointed for development and control of industrial enterprises included within the perview of this Act. This council has been constituted with representatives of employers, employees, consumers and producers. Moreover, **Development Councils** have also been established for different industrial enterprises included within this Act. The main task of these councils is to give advice to the industrial concerns for their expansion and development and to act as a liaison committee between the Government and the industrial concerns. The Government of India has also constituted **National Productivity Council** to increase productive capacity of the industrial concerns. Besides, **Regional Directorates and Local Productivity Councils** have also been set up. **National Laboratories** have also been established by the Government for undertaking industrial researches. **Indian Standard Institution** has been established for improving the quality of the industrial products. The task of the institution is to examine the quality of the products.

Several special finance and development corporations have been set up in India for providing long term loans and advances to the industrial concerns. These special finance corporations are **Industrial Finance Corporation, State Financial Corporations, Industrial Development Bank, Public Sector Banks, National Industrial Development Corporation, Unit Trust of India, Small Industries Development Corporation** etc. Their main function is to give long term and short term loans to large and small scale industries. Moreover, they provide also promotional facilities to various industrial concerns.

Regulations and Restrictions : At present the Government is controlling the location of industrial enterprises. Promoters are now required to get licence from the Government of India for the establishment of new enterprises or for expansion of the existing enterprises.

Industrial Licenseing System has been introduced for dispersal and regional development of industries and for preventing establishment of inefficient industrial units.

By announcing **Industrial Policy** the Government now controls and restricts the industrial development in the private sector. The Government of India announced first its industrial policy in 1948. The policy declared categorically which industries are to be developed in the public sector and which ones in the private sector. In 1956 a new industrial policy was announced by the Government cancelling the industrial policy of 1948. The new industrial policy was declared for the purpose of introducing socialistic pattern of society in India. As a result, many new industries have been brought under the public sector. Another policy was announced in 1973. Keeping the basic structure of the industrial policy of 1956 intact, this policy has given greater importance on the development of industries in the Joint Sector and preventing growth of monopolies in the private sector. Finally, the industrial policy announced in 1977 has given greater emphasis on the development of cottage and small scale industries. Of course, the basic structure of the policy of 1956 has not been altered.

In 1949 the Government of India announced its **Fiscal Policy** to restrict import and to impose protective tariff to protect Indian industrial concerns from competition of improved quality of foreign goods. The fiscal policy points out categorically which industries are to be brought under protection and the terms and conditions of granting such protection. A **Tariff commission** has been constituted for giving advice to the Government in respect of the protection of Indian industries.

Importance has been given for the development of industries in the private sector. At the sametime arrangement has also been made for the nationalisation of monopoly organisations in the private sector to prevent the concentration of wealth and economic power in the hands of a few industrialists and businessmen. **Monopolies and Restrictive Trade Practices Act** has also been enacted to control the growth of monopolies in the private sector. Besides, public utility concerns like posts and telegraphs, railway transport etc., industries of national importance like defence, pharmaceuticals etc., banking and currency system have been brought under government control. Moreover, Government also controls export and import of commodities.

Taxation and Revenue Raising : The Government has introduced direct taxes for reducing inequalities in income and wealth. Income Tax, Corporation Tax, Wealth Tax, Death Duty, Gifts Tax, Expenditure Tax etc., have been imposed for this purpose. All these direct

taxes not only prevent unequal distribution of income but also increase the revenues of the Government.

National Planning : In almost all the countries of the world central planning is undertaken for over-all economic development of the country. In socialist and planned economy central planning like five year plan is necessary. Since economic development is entrusted to the private initiative and enterprise in the capitalist countries, central planning is not always required. In the planned economy of India five year plans have been undertaken for the economic development of the country. For this purpose, all business enterprises have been brought under control. Efforts are being made to prevent the growth of monopolies and to increase the aggregate production of the country.

The Planning Commission has already undertaken six five year plans. The first five year plan was started in 1951-52 and completed in 1955-56. It main aims were—(1) to restore economic balance which has been jeopardised on account of war and partition of the country, (2) to increase national income and to improve standard of living by means of development in all spheres of the economy, (3) to increase the production of foodstuff and raw materials, (4) to improve agriculture, increase generating capacity of electricity and to provide for irrigation facilities, and (5) to improve transport and communication for developing base for economic development.

The second five year plan was commenced on 1956-57 and completed in 1960-61. Its main objectives were (1) to increase the national income, (2) to provide for industrial base by the development of basic and key industries, (3) to provide increasingly employment opportunities, and (4) to reduce the inequality in the distribution of income and wealth.

After this the third plan was started in 1961-62 and ended in 1965-66. Its objectives were (1) to increase national income by 5%, (2) to become self sufficient in agricultural products, particularly in foodstuff, (3) to increase production of basic industries, (4) to provide sufficiently employment opportunities and (5) to reduce to a great extent inequalities in income and wealth.

The fourth plan was started in 1969-70. The objectives of the plan were to expedite economic development, to reduce dependence on foreign aid, to mitigate foreign exchange crisis by the promotion of export, regional development of industries, to establish social justice and equality by reducing concentration of economic power, and to increase employment opportunities etc. The fourth plan was starated a few years after the completion of the third plan on account of the Indo-

Pakistanic war. That was why, annual plans were undertaken on the model of fourth plan from 1966 to 1969 to effect development during this period. After this, in 1974 the fifth plan was started. Its aims were to remove the proverty, to provide for employment opportunities and to achieve self-reliance in the matter of economic development.

The sixth five year plan has been started. Before undertaking the sixth plan the Government had decided to give effect to the rolling plan. But the idea was dropped later.

Important Government Institutions for furtherance of Industry and Commerce

(1) **Planning Commission**. In 1931 an effort was made for the first time in Karachi session of Indian National Congress to set up a planning commission. Later in 1938 a national planning commission was constituted under the chairmanship of Sri Jawaharlal Nehru. The commission prepared certain important reports for the economic development of the country and submitted them to the congress. After independence the Government of India had taken steps to constitute a permanant planning commission and it was set up in 1950. The main task of the planning commission is to formulate central plan for economic development by means of utilising national and human resources. For this purpose it determines the extent of resources available within the country and also the quantity of resources that can be acquired from the foreign countries.

The planning commission has different departments for making plan for utilisation and production of different resources. Besides, it has a general department for the co-ordination of production plans of various resources. Moreover, National Development council has been established. Its main function is to establish a link between the planning commission and the different state governments in the matter of formulation and implementation of central plan.

(2) **National Small Industries Corporation**. The National Small Industries Corporation was established in 1955 as private limited company with an authorised capital of Rs. 2 lakh. On account of increasing volume of business the corporation has increased its authorised capital to Rs. 50 lakh and paid up capital to Rs. 12 lakh. It is also entitled to increase its resources by issuing debentures very often guaranteed by the Central Government for the repayment of loan and payment of the interest, and by getting loans and grants directly from the Central Government. It has already received loans and grants

from the Central Government and foreign loans and advances from the U.S.A., West Germany and Japan. The entire share capital of the Corporation was contributed by the Central Government.

The main function of the corporation is to (1) grant loans and advances to small industries, (2) guarantee loans raised by them, (3) underwrite shares and bonds, (4) provide financial assistance on various other ways, (5) provide engineering and technical assistance and training facilities to the entrepreneurs and workers of small units by setting up and running prototype production-cum-training centres, (6) collect orders from the Governments and distribute these orders to several small industrial units, (7) supply machines on hire purchase basis, (8) guarantee deferred payments by importers in connection with the importation of foreign machines, (9) provide marketing facilities to small industries and arrange for marketing of their products through mobile retail shops, (10) render all possible helps to small units to develop them and enable them to operate as ancillary units to large firms, and (11) set up industrial estates in different areas for fostering development of small industries.

The main purpose behind setting up of this corporation is, therefore, to render all out assistance for development and efficient operation of various small industries and for this to supply them machinery and equipments and improve their competitive strength through arranging production of quality products and provide them with better markets.

The corporation has realised its objectives to a great extent. It has already received a crore of rupees from U.S, Development Fund and established three prototype centres at Okha, Rajkote and Calcutta in collaboration with the U.S.A., West Germany and Japan. It has already set up industrial estates near Delhi and Allahabad. Credit guarantee scheme has been arranged with the State Bank and it delivered more than 10,000 machines on deferred payment arrangement.

The corporation has established branches at Calcutta, Bombay, Madras and Delhi particularly for supplying machinery on hire purchase, securing orders from the Governments and distributing them to units of respective areas.

(3) **Industrial Development Bank of India** : The Industrial Development Bank is a great addition to the term lending institutions of India. "The main object is to bring into existence an apex institution to co-odrinate the activities of other financial institutions, including banks, providing term finance to industry as well as to provide direct

financial assistance to industrial units to bridge the gap between the supply of and demand for medium and long term finance."[1]

The Bank was established in 1964 as a subsidiary of the Reserve Bank with an authorised capital of Rs. 50 crore. The authorised capital may be increased to Rs. 100 crore with the permission of the Central Government. It has initial issued capital of Rs. 10 crore wholly contributed by the Reserve Bank. The Central Government has also granted an interest free loan of Rs. 10 crore. The resources of the Bank can be increased by getting further loans from the Central Government, by issuing bonds or debentures with or without government guarantee and by taking loans and advances from the Reserve Bank. It can also accept deposits from the public for a period more than one year and loans and advances in foreign currency from foreign banks and financial institutions with the approval of the Central Government.

The management of the Bank is entrusted to a Board of Directors. The Directors are nominated by the Reserve Bank. The Governor and Deputy Governor of the Reserve Bank are its Chairman and Vice-Chairman.

The main function of the Bank is to provide long-term and medium-term financial assistance to all types of industrial enterprises engaged in manufacturing, mining, transporting, power generating etc. both in the public and the private sectors. For this purpose, it is empowered (1) to provide financial accommodation directly to the industrial concerns by means of granting loans and advances, participating in the share capital, underwriting shares, bonds or debentures, guaranteeing loans taken from scheduled banks and rediscounting bills and promissory notes, (2) to grant financial assistance to other term lending institutions like IFC, SFCs and ICICI by acquiring shares and bonds of those institutions, guaranteeing their underwriting liabilities and granting direct loans and advances, (3) to provide refinance facilities to the above institutions as well as to the scheduled and co-operative banks which generally grant term loans to the industrial concerns, and (4) to grant refinance accommodation to the above institutions for export credits granted by them.

The Bank has realised its objectives to a considerable extent. It has already participated in the share capitals of the term lending corporations and acquired 50% of the share capital of the Industrial Finance Corporation. The Refinance Corporation has now been

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[1] S. C. Kuchhal

merged in it and the Bank has undertaken all refinance responsibilities of the corporation. It has now increased the limit of the refinance to a single unit to Rs. 1 crore. The refinance facility is extended to loans repayable between 3 and 25 years in case these are granted by the specialised financial institutions and to medium term loans repayable within a period between 3 and 10 years provided by scheduled and co-operative banks. The refinance is available for export credits repayable between 6 months and 10 years.

During the year 1971-72 the total sanctions in respect of three schemes of finance, namely, direct assistance, refinance and rediscounting of machinery bills increased to Rs. 141·8 crore from Rs. 97·7 crore in 1970-71. Direct assistance in the form of loan underwriting and guarantee has been increased form Rs. 47·2 crore in 1970-71 to Rs. 65·9 crore in 1971-72 granted in respect of 37 projects. Total sanctions of refinance for industrial loans rose Rs. 24·5 crore in 1970-71 meeting 106 applications to Rs. 30·6 crore in 1971-72 disposing 2,003 applications. Small industries claimed bulk of the above assistance.[1]

In respect of financial assistance to institutional investors it has sanctioned a total grants of Rs. 18·9 crores to ICICI (including purchases of debentures to the extent of Rs. 3·2 crores) and Rs. 4·4 crores to SFCs. It has established Industrial Reconstruction Corporation in April, 1972 for providing financial accommodation to sick and closed units and contributed a total of Rs. 2·75 crores so far.[2]

The Bank has launched various schemes for promoting industrial development in backward areas and undertaken surveys for finding out industrial possibilities in various States and Union Territories. It is now providing technical consultancy services and for this purpose, it has a plan to establish different consultancy service centres in backward areas. It has already established Kerala Industrial and Technical Consultancy Organisation.[3]

The Bank is, no doubt, promising institutional investor and is expected to do much for promoting industrial development in India.

(4) **Controller of Export and Import :** The Chief Controller of Import and Export is mainly responsible for executing the export and import policies of the Government. It issues licences to importer. An importer first applies to the import control authority for 'quota certificate'. This certificate contains the quantity, type and value of goods and areas of import. Another application should be given to the Controller of Export and Import along with income tax clearance certificate for licences. There are two types of licences—(a) open general licence and

1. R.B.I. Bulletin 2. Do 3. Ibid 367

(b) individual licence. Open general licence specifies the number of commodities that can be imported up to a certain quantity from certain specified regions. Individual licence is to be obtained from the aforesaid controller. Individual licence states the name of the importer, description of commodities, value and quantity and the countries from where commodities are to be imported. Similarly, export licence indicates the name of the exporter, description of commodities, value and quantity and the countries where things are to be exported.

(5) **Department of Commercial Intelligence and Statistics**—For smooth operation of internal and international trade the Department of Commercial Intelligence and Statistics procures commercial information from different sources and gives them to the interested concerns. It has a department of statistics and publishes a commercial magazine. It replies all queries in respect of export and import and normally it disseminates all information in respect of export and import. It gives information regarding the supply of raw-materials and manufactured things and their prices. It publishes a journal in the name of 'Indian Trade Journal'. It has a library and a reading room. It is managed under the control and supervision of the Central Department of Commerce and Industry. It is situated at Calcutta.

(6) **Public Sector Bank**—At present in India there are two types of banks, namely, private sector banks and public sector banks. Reserve Bank, State Bank of India and twenty nationalised banks constitute the public sector in the banking business. Reserve Bank is the central bank of India. It manages and controls the currency and banking system of the country. It acts as bankers' bank and a bank of the government. It controls the bank credit and maintains the external value of the currency.

The State Bank of India was established in 1955 by nationalising Imperial Bank of India. Its authorised capital is Rupees 20 crore and paid capital Rs. 5 crore. It is a commercial bank. It accepts deposits from the public and provides loans and advances to trade, industry and commerce. Its main objective is to provide banking facilities in rural areas. It has opened a large number of branches in the rural areas and now acts as a powerful medium for mobility of rural financial resources. It tries to eliminate village money lenders by providing loan at a low rate of interest to the farmers. It is also giving loans to the co-operative banks for this purpose. The Reserve Bank of India has entrusted the State Bank of India to give shape to its all plans in respect of rural credit.

The step towards socialistic pattern of society has been strengthened by nationalising fourteen big banks in 1969 and six more later in 1980. Before nationalisation these banks used to patronise big business houses only. Small traders and artisans in the urban areas and farmers in the villages did not get any loan from them. Particularly, they neglected very much small industrial enterprises, though small enterprises contribule about 40% of the total production in India. Now the nationalised banks are providing loans and advances to the neglected cottage and small industries. Being labour intensive industry the cottage and small scale industry can mitigate unemployment problem by providing employment opportunities to a large number of persons. That is why, the nationalised banks are giving loans for the development of cottage and small scale industry. These banks are providing loans to small traders, retailers, owners of bus, minibus and taxi etc. for fostering self employment. Besides, they have opened many branches in villages for providing loans to farmers. This has eliminated village money lenders. Hence, it is expected that the nationalised banks would be able to increase the savings of the country by providing bankings facilities to different areas in the country and opening up scope for investment for production purposes.

(7) **State Government Directorate of Industries**—This state government department is found in almost every state of India. It looks after industries and all aspects of the industrial development in the state. West Bengal has this government department. This is known as **Directorate of Industries, Government of West Bengal.** This department performs all activities in respect of industrial development in West Bengal. It provides facilities to the industrial enterprises which are interested in the establishment of industries in West Bengal. When setting up of any industrial unit requires approval from the Central Government, it secures this approval from the Central Government and issues the letter of intent. It is also entrusted with the responsibility of the setting up of government undertakings in West Bengal. It gives varied facilities to all types of industries, that is, small, medium and large scale enterprises. This department has already established industrial estates in different regions of West Bengal. It is providing all facilities to small and medium scale enterprises for setting up industries in all these regions. This department has the authority to grant loan of the maximum of Rs. 25,000 to an industrial enterprise. For getting loan from this department or from any bank for the establishment of any unit in West Bengal, the enterprise is to be registered with this department. If the enterprise is registered by this department and if

this directorate recommends, the industrial enterprise can easily get loan from any bank. For the establishment of any new unit in West Bengal, the enterprise is registered with this department by submitting a project report and an estimate of probable expenditures in respect of setting up of such a new unit. Old and existing enterprises are required to furnish profit and loss accounts and balance sheets of the last three or four years for registration with this department.

Questions

Essay Type

(1) Discuss the role of Government as Promoter and Controller of business in our country.

[Ans. As Promoter—As Regulator] [H.S. 1978]

(2) Discuss the role of the Government in guiding, assisting, regulating and restricting business development in our country.

[Ans. Guidance and Assistance—Regulations and Restrictions]

(3) States are increasingly participating in trade, industry and commerce—why? Explain with reasons.

[Ans. State Participation in trade, Industry and commerce]

(4) What measures have been taken by the Government of India for the development of trade, industry and commerce.

[Ans. State Participation in Trade, Industry and commerce]

(5) Write what you know about the Planning Commission and Industrial Development Bank of India.

[Ans. Planning commission—Industrial Development Bank of India]

(6) Write a short essay about the National Small Industries Corporation and the Public Sector Bank.

[Ans. National Small Ind. Corp.—Public Sector Bank]

(7)) Write short Notes on—(a) Indian Planning Commission (b) I.D.B.I., (c) N.S.I.C., (d) Public Sector Bank, (e) Controller of Export and Import, (f) Dept. of Commercial Intelligence and Statistics, (g) State Government Directorate of Industries.

(8) Name the major government institutions for the furtherance of business in India and discuss one of them.

? [Specimen Question 1980]

[Ans. Important Government Institution for the furtherance of Trade, Industry and commerce]

Short-Answer type

(1) Indicate briefly the functions of—

(a) The office of the Chief Controller of Imports and Exports.

(b) The Department of Commercial Intelligence and Statistics and

(c) The Directorate of Industries, Government of West Bengal.

(2) Briefly state the objectives and functions of the National Small Industries corporation.

[Ans. N.S.I.C.] [H.S. 1978]

(3) When was Indian Planning Commission appointed ? What are its functions ? How many plans have been undertaken by it ? What were the objectives of those plans ?

[Ans. Planning Comm. —National Planning]

(4) What are the functions of Public Sector Banks ?

[Ans. Public Sector Banks]

(5) Mention the various ways in which Government seek to assist promotion of small scale industries in India [H.S. 1979]

[Ans. N.S.I.C.]

Objective Type

(1) You want to establish a factory in a region in West Bengal, which Government Department you have to approach for various assistances ?

(2) How many plans have been undertaken in India ? what were their Objectives ?

(3) Which Government office is to be approached for getting import and export licences ?

CHAPTER—VI

OFFICE ORGANIZATION

Significance of office Activities in a Business undertaking

Every business unit, be it manufacturing or commercial or banking or insurance company requires office for communicating information and recording and keeping various documents. In an enterprise organisation is developed by allocating different business functions to different departments. But these departmental activities are to be co-ordinated to achieve enterprise objectives. This is done by office by means of communicating and recording activities. **It gets information from within and outside the business enterprise and communicates the information to various departments which require it.** For this purpose it is required to keep various documents in separate files so that it can supply the relevant document to managers who require the same for formulation and execution of business policies. Sometimes, facts and figures are collected from various documents and these are sent to the departmental heads who may want them for finding out correct course that should be adopted for performance of their delegated tasks. This is a very important service rendered by an office as the planning for the future activities cannot be done unless a business executive gets the past facts and figures. Since the business office is entrusted with this specific duty, a business executive can rely on the accuracy of the office.

It is, therefore, necessary that the office should make arrangement for keeping the important documents orderly and systematically. Filing of letters and documents is to be done on a definite basis that may prove suitable for the nature of the business the enterprise has undertaken. The method of filing must be scientific so that flow of work is maintained and not interrupted. Otherwise, it will be very difficult for the office to get the relevant document in time and to give the relevant information to a particular department which requires it. **By preserving important documents the office renders a very useful service to the entire enterprise.** For keeping records the office should adhere to certain basic principles. These are : (1) Necessary documents are only to be kept and the unnecessary ones which are not to be of any use are to be destroyed to reduce the load of the racks and the cost. (2) Records must be classified and arranged properly. (3) They must

be capable of verification. (4) The information must be readily available when needed. (5) Records must be preserved and produced at a reasonable cost.

Communication is another very important business of the office. It means that the office receives information from various departments of the enterprise and disseminate the information to different other departments. This helps an individual to perform his task, maintains the flow of work and co-ordinates the various activities for producing the desired result. Outside the enterprise the office is to deal with the customers, suppliers, financiers, creditors, government and many other persons. For this purpose, it is required to receive and issue correspondence. Besides correspondence it is also to receive and issue a host of documents and statements like bills, memos, receipts, delivery notes, purchase orders, shipping advices, tenders, quotations, memoranda, reports, invoices etc. Communication also refers to typing, duplicating, telephoning, teleprinting, mailing etc.

It is also the business of the office to make necessary arrangement for the protection of the properties and merchandise of the enterprise and this can be done by effecting fire and marine insurance. It is, therefore, clear that all sorts of clerical work are performed by the office.

In case of a public company certain other functions are required to be performed by the office. These are—(a) issuing shares and debentures and obtaining funds and depositing the same to a scheduled bank, (b) paying dividends and interests, (c) keeping various registers like register of share-holders, register of debenture-holders, register of mortgages and charges etc., (d) recording and registering transfer of shares, (e) preparing reports, charts and documents of statistics for consideration of the board and (f) various other secretarial duties.

In short, making and keeping records, communicating and computing are the important functions imparted by the office.

Different Departments of an office

The following departments are normally found in a business office

(1) **General office**—Very often a business enterprise maintains a general office. It performs all sorts of clerical activities of various departments. It does all administrative functions and co-ordinates the activities of all departments. Its duty is also to keep records and to receive and issue correspondence. It centralises the use of office equiptments like typewriter, duplicating machine etc. The duty of the office also includes the effecting of fire and marine insurance for the protection of properties and merchandise.

(2) **Accounts Department**—Its main function is to record books of account and to maintain books of account. It prepares profit and loss account at the end of the year to show profit or loss and a balance sheet to reflect the financial position of the business. Industrial enterprise keeps a costing department. Its primary duty is to determine the cost of production and thus to find out the selling price of the finished product. An internal audit section is also provided under this department. This section examines and verifies all business transactions. Chief accountant is appointed as the head of this department.

(3) **Cash Department**—The function of the cash department is to receive cash and make payments. Whenever it receives any amount, it issues receipt. It makes payment only when there is order from the office executive. The executive orders for payment by means of issuing and signing vouchers.

(4) **Purchase Department**—The primary duty of this department is to purchase commodities, equipments and other things necessary for business. It is to see that commodities are purchased at a reasonable price so that the enterprise can sell them at the competitive price. Whenever any department requires to buy any product, it informs the purchase department. The stores department prepares a list of goods the stocks of which have been exhausted and sends it to the purchase department. On receiving requisitions from various departments, it examines market and buys the commodities at convenient prices.

(5) **Sales Department :** This is a very important department as the primary motive of any business unit is to make profit by selling products at the best obtainable price. Hence, the important duty of this department is to sell commodities at the best possible price. It also tries continually to increase sales figures and for this purpose it takes the help of advertising and publicity section.

(6) **Stores Department :** It is primarily concerned with the storage of various things. Whenever any department requires materials, it sends a requisition slip to the stores department. After receiving the slip the stores department issues the materials to that department. If the stock of any material is exhausted, it informs the purchase department which purchases the thing immediately and in this way the stock is replenished. Its responsibility is also to preserve various things.

(7) **Personnel Department :** The duty of the personnel department is to advise the management in respect of staff matter. It is concerned with the recruitment, placement and training of workers, fixation of salaries, wages and bonus, employee relations and welfare of workers.

(8) **Correspondence Department :** This department performs all

activities in respect of correspondence. This department is provided for centralisation of correspondence work. It prepares drafts, receives correspondence and after sorting distributes them to various departments. It establishes communication with the consumers, suppliers, creditors, governments and many other persons.

(9) **Filing Department** : The primary responsibility of the department is to arrange for filing of various letters and documents. It keeps in various files all letters and documents that have been received from and issued to creditors, suppliers, consumers etc. It preserves files orderly and systematically so that whenever anybody needs them, they can be found out quickly. This department is providely for centralisation of filing work. In other cases, filing work is decentralised and every department is provided with a filing section.

(10) **Statistics and Data Collection Department** : The main function of this department is to collect numerous data and give the statistical information to the different departments, to the top management and particularly to the research department to help them to undertake experiments on certain specific matters.

(11) **Research and Development Department :** It tries to find out new products and new techniques of production by research and experiment. It is also engaged in market research and management research and advises the various departments about the benificial results of research.

Office Machines and Equipments

In all modern large offices machines are used for getting a large volume of routine work done at the minimum cost. Various labour saving devices have now been found out to foster efficiency, accuracy and to minimise labour cost. These mechanical devices can do a greater volume of work at a shorter hour and at the minimum cost. Machine, therefore, saves labour and labour cost by reducing the requirement of personnel, saves time by speeding up the work and turning out greater volume of work within the time given and again it promotes accuracy which is very much needed in all types of work particularly in calculation and statistical work. Moreover, it can also minimise the chances of fraud.

Machinery is now so widely used in modern offices that very often the desirability of having some of them is not considered carefully. At present some of the machines are so widely used that even in smaller offices these have become indispensable. For example, typewritting and calculating machines and telephones are used in almost all offices.

But before introducing machinery it should be seen whether it can be effectively utilised for the office work. If the office work is not sufficient enough to justify the introduction of machinery, instead of minimising labour, time and money, it increases cost by not utilising the maximum capacity of the machinery.

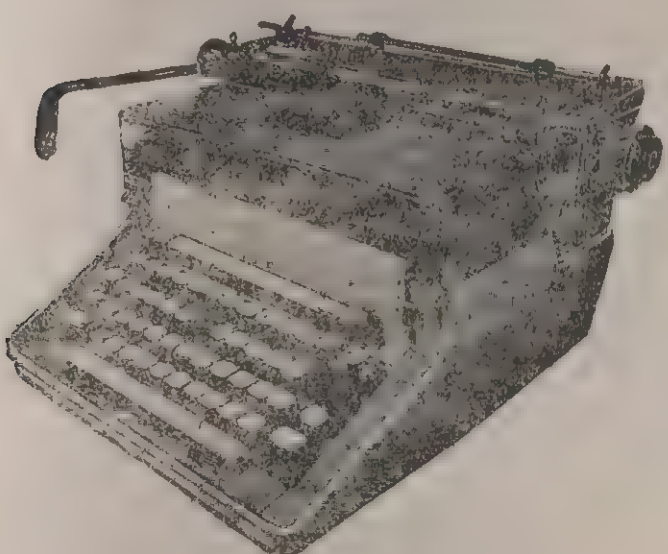
An office machine is economical when—(1) There is enough work to justify the adoption of machinery, (2) The labour and overhead costs thus saved are greater than the operation cost of the machine and capital cost is spread over the lifetime of the machine. (3) Errors and frauds can be eliminated as the machinery ensures accuracy, precision and minimises fraud. (4) The manual work cannot produce such standard in office work as can be by the machinery. (5) The nature of office work requires a greater volume of work to be done within a shorter-hour. (6) The enterprise wants to reduce needless office cost.

The importance and purposes of various types of office machines and appliances are stated as follows—

(1) **Writing and Reproducing Machines**

For writing and copying letters and documents the following machines are normally used—

(a) **Type Writer** : It is universally used and is now indispensable

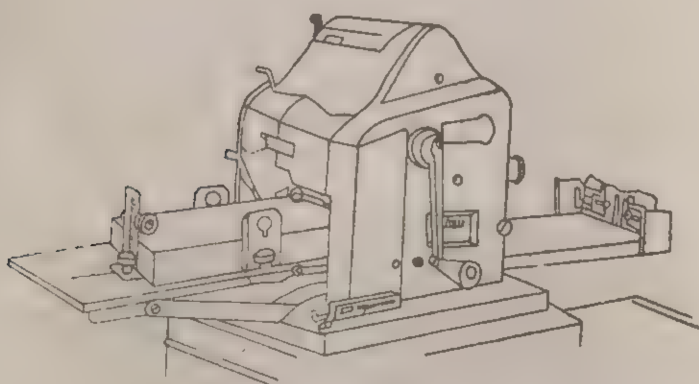


Type writer

for correspondence work. It produces neat, accurate and standard letters which are necessary in correspondence.

(b) **Dictaphone** : It operates like gramophone. Sometimes it is not practicable for busy executives to wait for the stenographer for dictating letters. They use very often dictaphone, a dictating machine.

(c) **Stencil Duplicator or Mimeograph** : It is now a widely used machine for copying letters and documents. This machine may be operated by hand or by electricity. Matters of letters and documents are written or typed on a wax paper. It is known as stencil. It can produce as many as 5000 copies. Normally circular letters are prepared by this machine.



Stencil duplicator

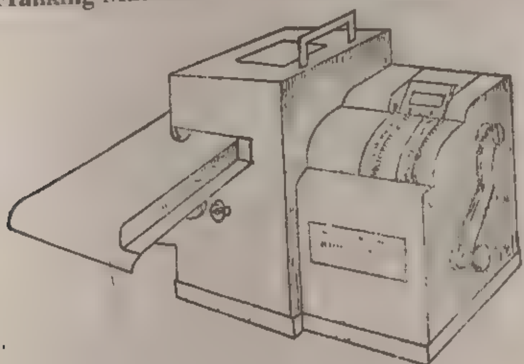
(d) **Off-set Litho Machine** : It is used for printing circular letters and other important and confidential letters. This is more a printing machine than merely duplicating. It is of rotary type, power driven and it operates at a high speed.

(e) **Photostat Machine** : It is used for making photo copies of important documents. It is practically photo printing of important documents on photography papers without using films or plates. Plans, charts, diagrams etc., are also photo printed by photostat machine.

Photostat machine

(f) **Addressing Machine** : In large commercial offices, banks and insurance companies where a large number of addresses are written on covers, bills, circulars etc., this machine is used for printing addresses on such papers. It is a unique development for helping correspondence work. It is also used for preparing lists of articles and customers within a short time.

(g) **Franking Machine** : The machine which affixes postage stamps



Franking machine

on covers and envelops is known as Franking Machine. For avoiding time consuming process of affixing postage stamps on each and every cover, the machine prints a stamp-like design on the cover and inscribes therein the registered number, amount of stamp, place of origin of the letter and the date. This machine is registered by the post office authority. A metre is placed on the machine on payment of the requisite amount to the post office authority. When the amount is exhausted, the machine is automatically locked.

(h) **Envelop Opening Machine** : This machine is now utilised in some offices which receive thousands of letters everyday. This machine can open thousands of envelops within a few minutes.

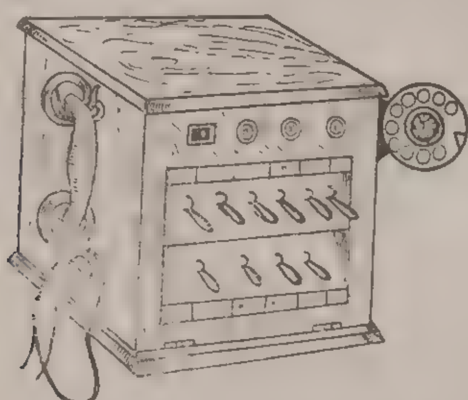
(i) **Letter Folding Machine** : This machine can be used in large offices which issue greater volume of correspondence everyday. It can fold thousands of letters within an hour.

(j) **Xerox Machine** : It is now an important reproducing machine. Letters, documents, title deeds, diagrams etc. are first photographed and then copies are printed therefrom. Many copies can be printed by means of a single photoplate. It is now a widely used copy producing machine.

(2) **Communicating Machines**

The following machines are used in the offices for communicating information—

(a) **Telephone** : For communicating oral messages quickly telephone is widely used and it is found in almost all offices. For internal telephonic connections with different departments a telephone switch board is kept. It is known as **P. B. X. Box**. One or more operators are appointed to operate this box.



PBX Switch board

(b) **Telewriter** : It is a mechanical device for communicating messages. Writing of anything at one end can be reproduced automatically by telephone or telegram lines at the other end. Generally it is used for communicating messages to the branch offices.

(c) **Teleprinter or Telex** : It is a recent development for quick communication of messages. If any message is type written at one end is automatically printed by the type writing machine at the other end. This machine is now used by stock brokers, commercial offices and chambers of commerce for receiving and transmitting business information.

(3) **Calculating and Accounting Machines**

Various computing machines are now used in modern offices for avoiding errors and maintaining arithmetical accuracy. The following are some of the important machines—

(a) **Calculating Machine** : It can perform normal operation of calculation, that is adding, subtracting, multiplication and division.

(b) **Adding and Subtracting Machine** : It can perform only two operations, namely, addition and subtraction.

(c) **Accounting and Book-keeping Machine** : It is looked like a type writing machine with number and letter keys. It does book-keeping operations like journalising, posting, striking balances etc.

(d) **Billing Machine** : It is a typewriter with number and letter keys. It is used for preparing bills and invoices. It prints on the memo name and address of the customer, description of the goods, rate and also the total amount.

(e) **Cash Register** : It is commonly used in large offices. It registers the receipts of cash. It also adds the receipts of cash and shows the total of the cash received. It prints the amount on the receipt.

(f) **Electronic computer** : It is used for performing extremely complex calculations. It is capable of performing with great speed and accuracy any type of mathematical operation. It is used in big commercial offices for performing complex operating processes.

(g) **Cheque Writing Machine** : This machine is utilised in modern offices for writing cheques. It prevents error, illegibility and particularly checks fraudulent alteration of amount written on the cheque.

(h) **Comptometre** : It is a complex machine which performs all types of mathematical operations including decimals, fractions, weights and measures. It performs all such operations quicker than human mind can do.

(4) **Other Machines:**

(a) **Time Recording Machines**—Time Recorder is now used in big factories. It is usually placed at the gate. Workers while entering the factory insert their job cards and record the time by the machine. They do the same thing while coming out of the factory. In this way the machine works as an attendance register and the time spent on the jobs by the workers can easily be known.

(b) **Date and Time Stamping Machine:** In big offices large number of letters are received and issued. This machine is used in big offices for recording time and date of arrival of incoming mails.

Handling and Disposal of Mail and Correspondence

In a small office correspondence is handled by a single person, that is, either by the principal or secretary or proprietor of the business. He receives the correspondence, distributes the same among the individuals for taking necesary action or himself replies various letters after getting first hand information and proper verification.

In big offices it is not practicable for a simple person to handle a large volume of correspondence. Any plan of dealing with correspondence is divided into—

(1) Incoming Correspondence or Mail and (2) Outgoing Correspondence or Mail.

Incoming Correspondence or Mail

The following steps are usually taken for handling incoming correspondence or mail—

(1) **Receiving correspondence or mail**—First of all various letters and documents are to be received. For this purpose a clerk is appointed and it is his duty to receive all letters and documents or mails whenever these are delivered by the peon. He is also empowered to issue receipts when letters and documents are delivered to the office by any messenger. The big office usually provides for a Cenral Receiving Section. A group of clerks along with a supervisor of the Central Receiving Section are entrusted to receive all letters and documents and to issue receipts whenever required. In a small office peon delivers mails at different hours. But a big office usually or very often keeps a numbered box in a post office and mail of a day is delivered to the office by the post office. Very often an employee of the Central Receiving Section collects the mail of a day from the post office.

(2) **Opening and Scrutinizing**—The next step is to open all letters and documents and this is done by the clerks of the Receiving Section under the supervision of an officer. Sometimes in a big office electrically operated letter opening machine is used for opening letters. The contents are usually shakened to one side of the envelope and the machine slices a very thin piece of the other side. All letters are opened in the Receiving Section excepting those which are marked 'confidential' or addressed to the principal or Managing director or important officers by name or by designation. Sometimes it is provided in the office code or manuals of many enterprises that letters should not be addressed to the officers by name. In that case demi official (D. O. letters) letters addressed to the officers of the different departments by designation should not be opened. They should be sent unopened to the respective departments.

After the letters are opened, clerks of the section extract the contents from the envelopes. The contents are then scrutinized carefully. If the important documents or remittances like cheque, postal order etc., are enclosed in a letter, the same should be checked with the note mentioned in the covering letters. The clerk of the Receiving Section should tick out the amount mentioned in the covering letter, if he finds the same as correct. If there is any discrepancy, the opening clerk should note it in the covering letter. He may also draw the attention of the supervisor of the Receiving Section. The enclosures are then fastened to the covering letters and sent to the respective departments.

(3) **Date Stamping and Recording the Receipts**—After the letters are opened they are to be stamped. The stamp provides for the date of receipt of the letter and even the time. This avoids future dispute and litigation in respect of the correspondence. Usually, rubber stamp is used in many offices but in big commercial offices date and time recording machine is utilised on account of large volume of correspondence. Besides these, other spaces for covering columns like number of letter, department or departments where the letter is to be replied or filed, are also provided in the stamp. When a letter concerns more than one department a Supervisor-officer mentions the sequence in which the letter is to be dealt with by the different departments by writing the names of the departments in the relevant column of the date stamp.

In some offices 'Inward Mail Register' or 'Letter Received Book' is maintained to record all particulars in respect of letters and documents received. It secures certain advantages, namely, the process can keep the detailed records of number and nature of correspondence, secondly, the particulars of lost or mislaid correspondence can be

obtained from the Register, thirdly, responsibility can be fixed in case any document is lost or the letter is not properly and timely attended to. lastly, a record is kept in respect of the volume of correspondence dealt with during a certain period.

At present this practice is dispensed with in most of the offices. Only registered and insured letters and important documents are recorded and others are sent in batches to the respective departments.

(4) **Sorting and Distribution**—After this, letters and documents are sorted out and distributed to the respective departments. Senior official of each department should receive the letters and documents and initials the Letter Received Book if it is provided or the list of correspondence and documents prepared by the Receiving Section and sent to the departments. Letters concerning more than one department should be sent to the first department. Sometimes remittances like cheques, postal orders, bank drafts etc. are detached from the covering letter and sent to the Cashier. The covering letter is sent to the relevant department. The letters for which replies are not necessary are sent to the filing department. The letters for which immediate reply is not necessary are kept separately in the respective departments in their Pending Letters Files.

(5) **Disposal of Correspondence**—After the letters are received and distributed to the different departments the next function is dealing with the correspondence. The department in charge is to see that the letters are attended or replied promptly. Instead of simply acknowledging the letters every enquiry or order should be replied as quickly as possible. He is again to see that whether any letter remains unattended. In that case he must take prompt action for the disposal of the unattended letters. In other words, the departmental head should keep track of every letter received in his department. In a small office the principal or the secretary keeps track of all letters received by the office.

Outgoing Correspondence or Mail

Outgoing mail means letters, correspondence, reports, documents that are to be sent outside. We have already noted that letters which are received from various sources are either to be filed or replied. If they require reply, the information and data are to be collected, replies are to be drafted, they are to be signed and then they are to be made ready for despatch. Handling of outgoing correspondence requires the following important steps—

1. **Drafting of the Letters**—The first task in respect of the handling of the outgoing mails is to prepare the draft. But before drafting

relevant information is to be collected either from the departments or with reference to the files and documents. For this purpose files are to be collected from the filing department or from the filing section of the department concerned. In small offices letters are drafted by the principal himself or by the secretary. In large offices letters are usually drafted by the departmental heads or by the correspondence clerk or dealing clerk or the responsibility of drafting is entrusted to a correspondence department.

Important letters are drafted by the departmental heads or by the top officials. But the letters of stereotyped nature are often drafted by the junior clerks usually known as dealing clerks. In cases where stereotyped replies are required very often printed forms or post cards with trite replies are used. Usually it is found that junior or dealing clerks prepare the drafts after collecting necessary information and then place these letters before the departmental executive. The departmental executive may approve them or make necessary corrections before approving them.

It is not always practicable for a busy departmental executive to write all letters personally. He dictates the contents to a stenographer appointed for the purpose. Either the stenographer takes down the contents or a dictating machine is used for this purpose. Sometimes the department may have its own exclusive stenographer. Very often a Central Department for stenography and typing is established and a Supervisor is appointed to look after the work of the department.

2. **Typing**.—After the letters are dictated or drafted personally, they are to be transcribed and typed very neatly. Since every letter issued from the office must be made a fine letter, every letter must have a good paper, good finish and a good approach. A letter need not be over decorated but it must have a good finish so that customers and others may like it instead of getting pestered. And a good finish can only be secured by accurate and neat typing. Typist is to see that words are not misspelled, abbreviations used in the draft are converted into complete words, figures are accurately typed and if there is any ambiguity in the draft, it should be brought to the notice of the correspondent. Neat typing requires an adequate margin in the left hand side of the letter and a double space between the lines. Not only the drafts but also the addresses are to be typed on the envelopes. After typing every letter should be checked before they are approved by the correspondent. Every letter must also bear the initials of the typist and the person who has checked it with reference to the original draft

3. **Referencing**—Referencing means marking every outgoing correspondence with a code or symbol. This code or symbol is prepared in accordance with the subject, product, number of correspondence and the year. Let us suppose, a firm manufactures five products. While replying an enquiry in respect of the first product, the correspondent can use the reference like '1/ Enq.-5/74-75', Number '1' here means the product No. 1, 'Enq.' means enquiry, '5' points out that replying the fifth enquiry and '74-75' signifies the year. Every outgoing correspondence must have the reference mark and the correspondents to whom the letters are sent are required to quote this reference on all future correspondence. In modern offices reference mark has become so familiar that a dealing clerk can easily locate the file and understand the matter simply by studying the reference marks. Reference code may also help the filing clerk to place the letter in the relevant file and the files may sometimes bear the reference mark instead of the subject. It may also enable the correspondent to locate the incoming letters for which replies are to be sent.

4. **Signature**—After the letters are typed they are to be signed before despatching. In small offices every letter is signed by the principal himself or by the Secretary. In large offices letters are signed by the departmental executive. Though stereotyped or form-letters are signed by the junior or dealing clerk, very often facsimile of the departmental head is stamped on the letter. Important letters are signed by the departmental head but very important letters are signed by the Secretary or Managing Director or Chief Executive. Sometimes despatching of undesirable letters is controlled by requiring every letter to be produced before the departmental head for signature. While signing the letter the officer concerned should also sign the copies so that the copies may become the true copies. If any alteration is made in the typed copy, the same should be initialled by the same person who signs the letter.

5. **Despatching**—After he letters are signed they are to be made ready for despatch. For this the letters are to be folded properly, inserted into the envelope, the envelope is to be sealed and stamped and delivered to the post office or to the destination by messenger. Before folding and inserting, the content of the letter is to be checked carefully so that the correct address is recorded on the envelope. Folding should also be made carefully so that the receiver of the correspondence may not find it difficult to unfold the letter. But before inserting the letter into envelope enclosures are to be checked and the

number of enclosures attached to the letter should be mentioned clearly in the left hand side of the bottom of the letter. On the envelope it is also sometimes mentioned that enclosures are attached to the letter. Then the envelope is to be sealed carefully with the gum. The gum should not come out of the sealed portion ,as otherwise one envelope may get pasted with other.

Then the proper stamp is to be affixed on the cover. Before stamping the whole content is to be weighed to know the exact value of the stamp required to be affixed on the cover. Both over-stamping and under-stamping are bad. In the case of overstamping the firm incurs loss and in the case of understamping the receiver of the correspondence may get annoyed, as he is required to pay something. Stamps are affixed either by hand or franking stamps are used with the help of franking machine.

6. **Recording in the Register**—In some offices a register for recording all outgoing mails is maintained. Serial number, date, names and addresses of the persons to whom letters are sent, a brief subject matter of the correspondence, reference number, stamps affixed etc., columns are provided in the register. This book keeps record of every outgoing letter and so whenever necessity arises, this book can be referred to know whether a particular letter has been sent or not. At present, this practice has been abandoned and merely a stamp register is kept on imprest system to record stamps purchased and used during a particular period and the stamps so used during a period, say, a fortnight or month are replenished in the next fortnight or month. This stamp register also serves the purpose of keeping record of every outgoing letter.

7. **Delivery of the Mails**—After all these, the letters are to be sent to the post office or to be delivered by messenger. Ordinary mails are sent to the post office at the end of the office hours or at the interval of two or three hours. Letters are sent to the post office generally by a pean of the despatch section. Registered and express letters are sent separately. When the letters are delivered by messenger, these are entered in a Peon Book. Date, addressees, their addresses, reference numbers, signatures or initials of the recipients, all these columns are provided in the Peon Book. The peon should be instructed that whenever the letters are delivered he must get the initials of the recipients in the initial colump of the Peon Book.

FILING

Purpose and Importance

Filing means preservation and keeping of correspondence, papers, documents and books and registers in such manner and system that they can be referred to and put to use conveniently. Systematic arrangement of office records is necessary as they are referred to frequently while dealing with business activities. Records present history of past activities of the business and the past activities are to be studied carefully to determine the present course of action. The study of records of past activities may also help the officials to determine the future policies. Moreover, letters and documents are written evidences of business activities and transactions and so they can be produced to settle any points of dispute. They can be produced before a court as evidences on any litigation. The office records are to be kept systematically and orderly not only for referring them frequently but also for preserving and protecting them from fire, theft and mutilation.

Therefore, filling of papers and documents are necessary for firstly, classification of letters and documents in such a way that they can be conveniently located and referred to without any difficulty, secondly, holding and preserving them in files or cabinets or racks in an orderly manner so that any one can have an access to any letter, paper or document easily and conveniently. The system of filing and keeping files must also be very simple.

The importance of filing need not be exaggerated. A modern office is primarily concerned with record keeping and this responsibility of the office is discharged by having a simple, efficient and comprehensive filing system. Modern business is organised on a large scale and a large business handles and produces large volume of correspondence and documents. Problems may arise relating to their proper preservation and protection. An efficient and comprehensive filing system can only solve the problem of record keeping of a big enterprise.

System of Filing

We have noted earlier that a modern office must have an efficient and comprehensive filing system so that a large volume of correspondence and documents can be kept and preserved. They can also have easy and convenient reference.

But an efficient filing system must also have an efficient method of keeping them so that the files can be handled conveniently and papers and documents within the files can be referred to easily.

In any method of filing two things are to be considered namely, classification of files and the equipments used for filing.

Files can be classified on the basis of date or alphabet or number or geographical area or alpha—number or subject of the correspondence. First of all, documents and papers are classified as correspondence, invoices, bills, orders etc. Each class of papers and documents is then arranged and grouped according to a suitable method, namely, correspondence can be classified on alphabetical basis or geographical or suject basis but bills and invoices can be classified on the basis of financial period or date and orders on the basis of party.

The following methods of filing are usually adopted in modern offices—

(1) **Chronological filing**—Files are classified and kept *chronologically*, that is, in order of date. This is a very old method of filing. Under this method correspondence and documents are placed one on top of the other on the basis of date. Papers of earlier dates are placed at the bottom and papers of recent dates are placed at the top. But the system is not very suitable inasmuch as any one refers to the papers of earlier dates, all the papers and documents over them are to be removed.

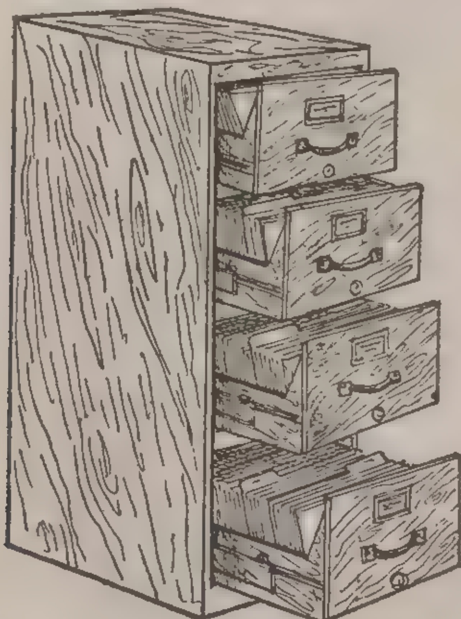
(2) **Alphabetical filing**—Filing can also be done **alphabetically.** In this method the name of the correspondent is writen on each folder. Then files are arranged alphabetically. It means that files of customers or debtors whose names begin with alphabet 'A' are grouped and placed first and then grouped and placed the files of customers or correspondents whose names begin with 'B' and so on. If a large number of files belong to the same alphabet these are subdivided and grouped like Aa—Ag, Ah—An, Ao—Au, Av—Az etc. Similarly, files grouped under letter B can be subdivided as Ba—Bg, Bh—Bn etc. Very often alphabetical order as we find in dictionary or directories is adopted.

(3) **Numerical filing**—Filing arrangement can be made **numerically.** Each correspondent or customer is alloted a number and all correspondence and papers exchanged with a customer are placed in a file bearing such a number. Then the files are arranged numerically. Sometimes, subgroupings are made like 1-10, 21-30 and so on and for each subgroup a card bearing indexing of correspondents is to be placed. This method is very convenient and files can be located quite easily. But a separate indexing is necesasry and every time the number of the customer is to be looked into for locating the particular file.

(4) **Alpha-Numerical Filing**—Files can also be arranged on **alpha-numerical** basis. In this case files are arranged alphabetically and again each customer is alloted a number. All files pertaining to customers whose names begin with 'A' are placed in one group but within such a group each customer is allotted a number like A/1, A/2, A/3 and so on. In this case also a subgrouping is necessary like Aa-Ag. etc. In this method a separate indexing is not necessary and a large number of files can be accommodated under an alphabet.

(5) **Geographical Filing**—Filing can be done on **Geographical** basis. In this case files are arranged according to the areas but areas again are arranged alphabetically like Agra, Assam, Bangalore, Bombay etc. A card indicating the name or names of area or areas is placed before each group. Under each group files of customers are arranged either alphabetically or numerically.

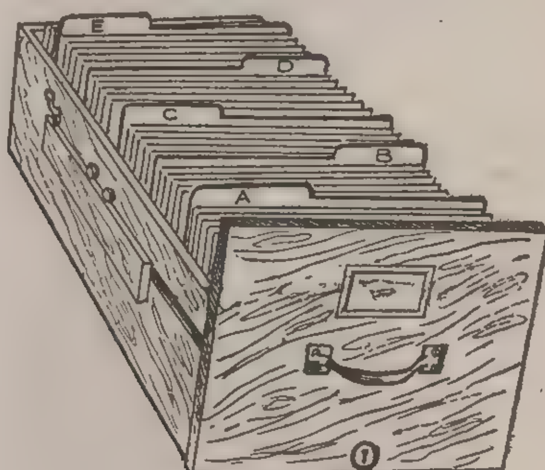
(6) **Filing on the Basis of Subject Matter**—Files are also arranged on the basis of the **subject matter** of the correspondence. Under this method files are classified according to the subject and then these are arranged alphabetically like Accounts, Advertising, Bills, Banks, Order, Transport etc.



Vertical Filing Cabinet

Filing Equipment :

Various types of files are now used, such as metal holder or spike-file, guard book, Pigeon hole system as is used in post offices for sorting out letters of different places, box file having spring to hold papers, flat file etc. At present vertical system of filing is adopted. It means that files are kept in deep drawers of the cabinet in vertical position. The files are arranged aphabetically and every file folder has raised edge where the letters, that is, 'A', 'B' etc., are shown.



Vertical File Drawer

INDEXING

In a large enterprise a large volume of correspondence and documents are received and issued every day. Uuless an effective arrangement is made it is very difficult to have easy reference to them. Indexing is such an arrangement. **Indexing means the preparation of the list of papers and documents in such a way that they can be referred to at any time quite easily and conveniently. The main purpose of indexing is to locate the files which contain correspondence, papers and documents.**

The following are important ways of indexing—

(1) **Alphabetical Index**—An alphabetical list is kept at the beginning of a book and the names of correspondents or customers are recorded under the dictionary plan along with page number against

each name. Under this method very often cross reference system is adopted to avoid frequent references to the index and consequent loss of time. It means that on a letter received from or issued to a customer is written the page numbers where other letters and documents relating to the same customer can be found.

(2) **Card Index**—Card index system is used in big libraries. Under this method a card is alloted to each customer. The card contains the name and address of the customer and other particulars relating to the customer. These cards are arranged alphabetically or numerically in small drawers. Guide cards are placed to subdivide the cards into groups. In this system new cards can be placed and the old cards can be removed without upsetting the entire arrangement of the cards. It is a scientific system and papers and correspondence can be referred to easily.

(3) **Ordinary Index**—It consists of pages and each page is alloted to an alphabet. Names of all customers commencing with letter 'A' are recorded in a page alloted to letter 'A' and so on. The folio is shown against each name. These may be maintained in a bound book or loose sheets are used for keeping indexes or a bound book is used but extended to open outside the area of the book. Sometimes the leaves of the book are cut to make the letters of the alphabet visible from outside. This is known as self indexing.

(4) **Vowel Index**—It is an extension of the ordinary index and the names are arranged, first of all, alphabetically and then each letter is further subdivided into six groups such as Aa, Ae, Ai, Ao, Au, Ay. In each group arrangement is made such as we find in a dictionary.

(5) **Visible Card Index**—Under this system each card is alloted to a customer and it contains name, address and particulars of a customer. But the cards are made visible by placing them under transparent covers in a shallow tray. Each card is placed on the top of the other in the tray but a narrow strip containing the name and address remains visible all the time.

Common Sureces of Information for Office Work

Various types of information are required to be procured from different sources for office work. Information is obtained in two ways. Firstly, it can be got from the old documents and correspondence kept in the files. Information can easily be obtained from this source. But the manager must know from which file he can secure the particular information. Secondly, information can also be obtained from various

other sources. These sources are Directories, Guide books, Reference books, Books of general and special Information etc. Manager or secretary obtains various information from these books for performing office work. But the managers must know from which books they can get the relevant information. Sometimes a library is maintained for preserving and easy handling of these books of information namely, directories, guide boqks, reference books etc.

The following are the brief description of these books of information—

(a) **Directories :** There are different types of directories. Different types of information are gathered from different directories. Some of these directories are enumerated below—

(a) **Telephone Directory :** Names of subscribers, their addresses and phone numbers are recorded in this directory. Different lists of prominent businessmen, industrialists and professionals along with their addresses and phone numbers are also provided in it. This directory is indispensable for getting phone numbers of debtors, creditors, consumers, suppliers etc., for having discussion with them on various matters. Besides, a list of probable consumers can also be prepared from this directory. Rules regarding telephone calls in local area and also trunk calls are recorded in this book. These books are distributed to the subscribers without any cost. Posts and Telegraphs department publishes this directory.

(b) **Business Directories :** Names of prominent businessmen, industrialists, industrial and commercial enterprises along with their addresses are recorded alphabetically in this directory. Chambers of commerce and trade associations publish these directories. Besides, medical association, bar association, auditors association, manufacturers association etc., publish their own directories. Names and addresses of members of the association are alphabetically recorded in it. Sometimes their names and addresses are required for having communication with them. These can be obtained quickly from these directories. That is why, these directories are kept in almost all offices.

(c) **City Directories :** Names of different roads, streets and lanes, their beginnings and ends, location of prominent buildings are recorded in these directories. Normally city directories are of two types, namely, street directory and resident directory. In the former names of various roads, streets, lakes, alleys, their beginnings and ends, crossings of different roads, visiting places like prominent temples, mosques, churches, planetarium, zoological garden etc., are mentioned. Transport and postal zones are recorded in it. In the latter directory

names of prominent residents and their addresses are mentioned. Besides, names of prominent businessmen, industrialists, reputed industrial and commercial concerns, chambers of commerce and trade associations are recorded in different sections of these directories. P & T department, Municipalities, reputed private concerns publish these directories. Very often separate diectories for trade, commerce and industry are published.

Several other directories are also found. These are directories for newspapers and magazines, for social workers, for company directors, company shares and stock exchanges etc.

(2) **Guide Books:** Various types of guide books are published. Different types of information are obtained from different guide books. Brief particulars of these guide books are stated below—

(a) **Postal Guide Book:** Information in respect of postal facilities are mentioned in this guide book. Different postal zones, main and sub-post offices, postal facilities obtainable from different post offices—all these are recorded in it. For getting information like which post offices have telegraphs, to which post offices telegrams can be sent, postal facilities available in different areas, postal rules etc.., this guide book is indispensable in every office. Particularly this guide book is very much necessary in mail order business. Post & Telegraph department publishes this guide book.

(b) **Shipping Guide:** This type of guide book is also necessary for office work. Names of various shipping companies, number of ships owned by them, names of different ships, means of shipping of different types of goods, freight rates, sea routes—all these are mentioned in this guide book. Private shipping concerns publish this guide book.

(c) **Travel Guide:** Very often office staffs are required to travel in different places for business purposes. That is why, travel guide is required in every office. Particularly, this book is very much necessary for itinerant salemen. This book mentions information in respect of travelling facilities. Means of travel in difficrent places, easy availability of different modes of transport in different areas, freight rates, hotel facilities available in different places, boarding and lodging facilities—all these are recorded in this guide book. Railway guide, Airways guide etc., are the examples of this guide book. Railway guide book mentions time of arrival and departure of different trains, their destinations, names of halting stations, rest houses in different stations, distances between different stations, rules regarding railway transport etc. Railway guide books are published by different

railway zonal offices. Railway authority of India publishes also all India railway time-table in the name of Indian Bradshaw. This railway guide book is called railway time-table.

(3) **Reference Books:** Different other types of information are also required for office work. These are obtained from different other guide books and magazines. These are known as reference books. 'Year book', 'who's 'who' type of book, trade journals like 'commerce', 'capital', 'Eastern Economist', Finance magazines like 'Indian Finance', Reserve Bank Bulletin, statistical book etc., are examples of reference book.

Recording of Appointments and use of Diary

The executive of the office is required to meet many persons for discussion on various matters. He is also to attend many meetings and conferences. It is not practicable for him to remember the different dates of appointments and also the dates of various meetings and conferences he is to attend. Since office executive is very busy with his work, this function is entrusted to his secretary. His secretary fixes up the dates of appointments on behalf of him. If different persons want to meet the office executive, his secretary determines hours and dates when he will be able to meet them for discussion on relevant matters. But the secretary can not also remember all the appointments of the exceutive. That is why, he needs the use of diary for this purpose. He records the dates of appointments with different persons and also the dates of various meetings and conferences in the diary. This helps the executive to perform his duties smoothly and without any interruption. Nobody is also harassed. Secretary fixes the dates of appointments long before and records them in his diary. He prepares a list of appointments of the executive from his diary and submits it to him. The executive meets different persons according to the programme given in the list. Sometimes the secretary records in the diary of the office executive his appointments and submits the diary to him everyday.

The diary must have 365 pages. Each page is fixed for a date. On each page the date and day are mentioned, for example, 25th June. Monday etc. The programme of the day is recorded on the page of the relevant date. Hours of appointments with different persons and also the meeting and conferences are also recorded in the page of the relevant date. The advantage of recording diary is that firstly, if time and date of appointment are fixed before, nobody is harassed. Secondly, if the programme of the day is determined, the entire work of

the day can be done smoothly. Thirdly, a person can recollect his appointments by looking to the relevant page of the diary. Finally, as the day's programme is recorded in detail in the diary, it facilitates to control and supervise different activities.

Specimen Page of a Diary

1976

23rd June, Tuesday—

Serial No.	Pragramme	Phone No.	Remarks
1.	10-30 A.M., Discussion with Sri Gopal Banerjee on-purchase of the month.		File No. 53 for reference.
2.	11 A.M. Sri Nritya Gopal Samanta to be consulted for sales.		Attention—Sales Executive.
3.	12 Noon, Conference of the Departmental Managers		
4.	1-30 P.M., Discussion with Mr. Mukherjee. Manager. United Commercial Company.		Contract No. 10 to be discussed –File No. 25(A) to be referred.
5.	2-30 P.M., Phone call to Mr. Samanta of Samanta & Co. for fixing the date and time of discussion.	22-3145	
	3 P.M., cheques to be signed.		
6. 7.	3-30 P.M., To receive the report of the Production Manager.		
8.	4 P.M., To attend the meeting of Manufacturers Association.		Grand Hotel, Banquet Hall.

Handling of Telephone

Telephone has revolutionised the communication system. Sitting in the office anybody can communicate to anyone in the city for discussion by means of telephone. Even anyone in any place in India can be talked to. In the international sphere also communication can

be established through telephone. That is why, this machine has become indispensable in every office. In small and medium scale business offices one or more telephones are now kept for discussion with persons outside the office. Within the enterprise communication with different managers and departments is maintained by pushing the buttons provided in the telephone.

In big offices though more telephones are provided, they are found insufficient for establishing connection between different departments and managers. That is why, big business office provides its own exchange system to establish communication between the chief executive and the different departmental managers. This is also known as extension system. Under this system a telephone P.B.X. switch box is maintaned and an operator is appointed to operate this box. Every department and every manager is provided with an extension number. If a department wants to have telephone connection with the other, it has to give the switch box operator the extension number of the department with whom it has to have phone connection. Then the switch box operator establishes the phone connection between the two departments. For making phone call to any person outside the enterprise, the operator is to be informed of the telephone number and then he makes the phone connection with the desired person.

Procedure of Making Phone Calls

The following is the procedure of making phone call—

(1) It will be convenient if the phone number of the person with whom phone connection is to be established is known. If it is not known, it is to be known from the telephone directory.

(2) Then the particular number is to be dialled. When reply comes from the other side, the phone caller introduces himself by saying like "I, Mr. X, the manager of the company is speaking".

(3) If the person to whom the phone call is made does not introduce himself, his identity is to be known.

(4) If there is extension system in the other side, when reply comes from the other side, the extension number is to be mentioned. If the extension number is not known, the operaor is to be told the name of the person to whom call is made.

(5) When the operator establishes the connection with the person, the purpose of the phone call is to be pointed out first and then discussion is to be started.

(6) Discussion is to be made in clear voice and every word is to be pronounced clearly so that no side feels inconvenient.

Procedure of Receiving Phone calls

The following is the procedure of receiving phone call—

(1) First, the receiver of the phone is to introduce himself by saying like "I Mr. Y. is speaking".

(2) If the caller does not introduce himself, his identity is to be known.

(3) Then the receiver is to know the purpose of the call and then to start the discussion.

(4) The word 'yes' is to be said or a sound is to be given against every sentence of the caller. This helps the caller to understand that the receiver is listening to him.

(5) If the caller does not follow anything, it is to be cleared to him by asking him again and again whether he has followed or not.

(6) Sometimes the subject matter of discussion is recorded so that the receiver can recollect it later.

Trunk Call

When a phone call is made to any person at a distant place, it is made by means of trunk call. Under this arrangement the place and phone number of the person to whom the call is made is given to the telephone exchange. This is known as booking of trunk call. In the case of trunk call connection cannot be established immediately. The caller is to wait for sometime. When the exchange informs the caller that the connection with the receiver of the phone has been made, the caller can start discussion. In the case of international phone connection this procedure of trunk call is necessarily followed.

Questions

1. Analyse the significance of office activities in a business undertaking.

[Ans. Significance of office Activities in Business Undertaking]

2. What is a business office ? What are the functions of a business office ?

[Ans. Significance of office Activities in a Business Undertaking]

3. What departments are found in an office ? Discuss in brief the functions of different departments.

[Ans. Different Departments of an office]

4. What appliances and equipments are now used in modern offices? Discuss in brief their functions.

[Ans. Office Machines and Equipments]

5. What procedure is followed in handling incoming correspondence.

[Ans. Handling of Incoming correspondence and Mail]

6. What procedure is followed in handling outgoing correspondence.

[Ans. Handling of outgoing correspondence and Mail]

7. What do you mean by Filing? Discuss the usefulness and different systems of filing.

[Ans. Filing—System of Filing]

8. Describe the nature of the principal activities done in the office of a business. [H.S. 1978]

[Ans. Significance of office Activities in a Business undertaking]

9. Explain how you would handle (a) incoming and (b) outgoing correspondence of a business office.

[H.S. 1979]

[Ans. Handling of Incoming correspondence —outgoing correspondence]

Short Answer Type Questions

1. What machines are now used in modern offices for accounting and caculation?

[Ans. Calculating and Accounting Machine]

2. What machines are now used in modern offices for writing and reproducing commercial letters and communication?

[Ans. Writing and Reproducing Machines]

3. What do you mean by Indexing? What are the different systems of Indexing?

[Ans. Indexing]

4. Discuss what you know about common sources of information necessary for office work.

[Ans. Common sources of Information for office work]

5. Discuss the usefulness of recording appointments and use of Diary.

[Ans. Recording of Appointments and use of Diary]

6. How appointments are recorded in a Diary? Show the specimen page of a Diary with recordings of imaginary appointments.

[Ans. Recording of Appointment and use of Diary]

7. You have been appointed a secretary of a company. How will you record the programmes of a particular day in a Diary?

8. As a manger of a company how will you make telephone call to a person and receive telephone call from a person.

[Ans. Procedures of Making call—Procedure of Receiving call]

9. How telephones are handled in a large business?

[Ans. Handling of Telephone]

10. Mention any five appliances commonly used in a well organised office of a large industrial undertaking.

[Ans. Office Machines and Equipments]

Objective Type Questions

1. What machine is now used in modern office to avoid postage stamps?

2. What are the functions of Personnel Department?

3. What machine is used for duplicating copies of letters, documents and deeds?

4. What is Telex? What is its usefulness?

5. Where is Time Recording Machine used? What is its usefulness?

CHAPTER—VII

BUSINESS LETTERS

Features of Business Letter

The importance of business letter is immense. The seller must come in touch with the consumers otherwise he cannot sell his commodities. He communicates to the varied consumers through business letters. At present, market for the products has been extended on account of the development of transport and communication. Sellers and consumers do not stay at the same place. A producer manufactures goods at one place but his buyers are spread over different places. Seller of one country sells goods to the consumers of different other countries. For this they must come close to each other. Connection is established between sellers and buyers through business letters.

At present complexity in the business has been increased on account of large scale production. Business transactions have also become complex. Again, business transactions are also now controlled by laws of the country. Various measures are now taken to make the complex transactions easy and simple and to utilise the facilities of mercantile laws. For instance, if a contract is entered into by the seller and the buyer indicating clearly therein the terms and conditions of purchase-sale, the transaction becomes simple. Business letter is, very often, regarded as a contract of sale and a document of purchase-sale. Therefore, business letter has not only simplified complex transaction, but also it has immense importance as a document of purchase-sale. Business letter is to be written carefully. It is to be remembered while writing business letter that every letter is to be made a letter of sale.

Features of business correspondence are stated below—

(1) **Brevity :** Business letter is not a personal letter. Personal letter reveals emotion, sorrow, ecstasy, passion etc. All these do not find place in a business letter. One has to state in a business letter what one requires to state and not more than that. Moreover, ever busy businessman has no time to read a lengthy letter. If a business letter is unnecessarily long, it may cause annoyance to the reader. Therefore, the purpose of the letter may be frustrated. Besides, there is a chance of divulging business secrets in a long and lengthy letter. Therefore, a **business letter must be brief and relevant.**

(2) **Simplicity : A business letter must express everything in clear and simple language.** If its language is unintelligible or if it expresses the matter in irrelevant and difficult words, the reader cannot follow it. As a result, the purpose of the letter is vitiated. It should be written in small sentences. Different matters are to be expressed in different paragraphs.

(3) **Clearness : A business letter must express everything clearly.** It must not contain equivocal words or sentences. In other words, it must not contain any sentence which may reveal different meanings. If the letter is written in sentences or words conveying different meanings, then the buyer may interpret it in a manner opposite to what has been conveyed by the seller. This increases difficulty, frustrates the purpose and creates conflict.

(4) **Sincerity : A business letter must convey everything sincerely.** Swindling finds no place in it. Insincerity or false statement destroys the reputation of the business. Even it may bring about dissolution of the business. Misstatement or false statement in a business letter amounts to fraud. Therefore, which framing business letter care should be taken to see that everything is expressed sincerely and truthfully.

(5) **Courteousness :** It is the most important feature of a business letter. If courteousness is expressed in a letter, it influences the consumer and draws his sympathy and confidence. Courteousness in the business letter reveals the quality and character of the framer of the letter. It increases the reputation of the business by establishing increasingly good relations and amity. The business letter must not show anger and vexation. Sometimes the circumstances may develop in such a way that it may cause anger and irritation. Even then it must show courteousness suppressing such anger and irritation. On the other-hand, if the letter is written with harsh and discourteous words, it may hurt consumer's sense of self respect. This vitiates the amity, frustrates the purpose of the letter, hampers the work performance and jeopardise the reputation.

(6) **Neatness :** Neat letter draws everybody's attention. It creates profound impact on the mind of the reader. Therefore, it should be framed on a beautiful paper and typed nicely and neatly. While making the type copy care should be taken to see that there is no spelling imstake, abbreviated words are converted into complete words and figures are typed correctly.

Structure of Business Letter

Structure of a business letter has broadly two parts, namely, **inward form and outward form.** They subject matter of letter is its inward form and the other parts constitute the outward form. The inward form of the letter is, no doubt, very important. As a matter of fact, subject matter is the letter. The writter conveys all information in the subject matter. In other words, the receiver of the letter gets all information from the subject matter of the letter. On the other hand, the outword form is equally important. Who or which enterprise has written the letter, to whom or to which undertaking it has been addressed, what is the subject of the letter, who has signed the letter, number of enelosure attached to the letter etc.—all these are pointed out by the outward form.

The following are the different parts of a business letter—

(1) **Letter Head :** This part of the letter expresses the name, address, telephone number, telegram code of the sender and also the date. A specimen is given below—

United Commercial Company Limited

(Supplier of all sorts of Stationery Products)

Telephone—33-4256 210, Maniktala Main Road,
Telegram—UCO. Calcutta-6.
Dated Calcutta the 23rd June, 1982

Letter No.—A/23/82

(2) **Name and Address of the Receiver :** In the left hand side of the letter the name and address of the receiver or receiving enterprise are mentioned. The designation of the receiver is also mentioned. When designation is not known, only the name of the receiving institution is recorded. If the receiver is a person, Mr. or Mrs. is written before the name. But if the name of the enterprise is made up of the names of some persons, the word 'Messers' is mentioned before the name of the enterprise. The word 'Messers' is not added before impersonal name. A specimen is shown below—

(a) The Chief Executive,
Indian Chemicals company Ltd.,
2O6, Netaji Subhas Road.
Calcutta-1.

(b) Messrs. Bose & Sons
15, Mahatma Gandhi Road,
Calcutta-7.

(c) Indian Commercial Co-Ltd.,
107, Arbind Sarani,
Calcutta-5.

(3) **Reference Number and Subject Matter:** In the right hand side of the letter below the letterhead reference number and subject in brief are mentioned. The following is the specimen—

United Pharmaceuticals Co. Ltd.

55, Shyama Pada Sen Road.
Calcutta-3.

Ref. 1/Ord.-3/81-82
Sub. Odrer for Drugs.

(4) **Address:** Before writing anything the person or the institution to whom the letter is to be given is addressed. This is written below the name, designation and address of the person or institution The receiver of the letter is addressed as follows—

Dear Sir,

Or
Sir,
Or
Dear Sirs.
Or
Sirs,
Or
Madam

(5) **Body of the Letter:** Next the Subject matter of the letter is written. At first, introduction is given as 'I/we have received your letter,' or 'I/We have received your letter dated 3rd Sept. 1982' or 'I/we thank you for your order dated 5th sept. 1981.' Then the subject or information is mentioned in simple language. At the end the thank is given.

(6) **Salutation at the End :** At the end of the letter the receiver is again addressed. Salutation at the end is the courtesy shown in every letter. This is a universal etiquette. It is mentioned as follows—

Yours faithfully.
Or
Yours Sincerely,
etc.

(7) **Signature :** When the letter is completed, it is to be signed. After signature the designation of the signatory is mentioned. Besides, name of the enterprise is also mentioned along with designation. This is mentioned as follows—

Subinoy Basu,
Manager,
Bharat Tube Co-Ltd.
Or
Binay Basu
for Indian Commercial Co. Ltd.

(8) **Enclosure :** If any document or cheque or postal order is attached to the letter, this must be mentioned in the body of the letter. Besides, in the left hand side below the body of letter it is specially mentioned as 'Enclosure', namely,

Enclosure—5
Or
Enclosure—a Cheque of Rs. 1000/-

Therefore, the structure of the business letter now stands as follows—

United Commercial Company Limited

[Paper Suppliers]

Telephone—33-2145
Gram—UCO.
Letter No. A/P13/81-82

203, Mahatma Gandhi Road,
Calcutta-7.
Dated cal. 22rd July 1982

The Chief Executive,
Indian Chemicals Co. Ltd.,
145, Netaji Subhas Road.
Calcutta-1 Ref. Or/3-81
Dear Sir, Sub : Order for Paper

Body of the letter

Yours faithfully,
Biswadeep Biswas
Manager,
United Commercial Co. Ltd.

Different Types of Business Letters

(1) Letter of Recommendation

In business letter of recommendation is necessary for various reasons. It is issued for the purpose of getting for any known and intimate person any facilities. Letters of recommendation are drafted for three purposes, namely, (a) General Letter of Recommendation—this letter is not addressed to any person or institution. Principal of a College or headmaster of a school may issue this type of letter to their students. Many other responsible and important persons may give this letter to their known and intimate men. A business enterprise may issue this letter for the purpose of recommendation of any ex-employee. (b) Very often it is given for providing all particulars and information in respect of any person seeking employment elsewhere. (c) Another type of recommendation letter is issued for introducing a business friend or for providing any particular facility to him.

(a) **General Letter of Recommendation** :

S. Mukherjee & Co.

Telephone—45-2130 934, Acharya Jagadish Bose Rd.
Gram—Asm Calcutta-3
Dated the 22nd June 1982

This is to recommend that Sri Anadi Ranjan Chakrabarty son of Sri Pravas Ranjan Chakrabarty was an employee of the firm from 1st April 1970 to 31st March 1980. I saw him sincere and efficient in the

performance of his duties. He satisfied all his co-staff and management by his performances on various matters. He is intelligent, painstaking and has a tremendous sense of responsibility. So far as I know he bears a good moral character and I have nothing to say against him.

I wish him success.

Rathin Mukherjee
Manager,
S. Mukherjee & Co.

(b) **Recommendation by a business enterprise in favour of a job-seeker :**

Confidential

Bengal Chemicals Co. Ltd.,

[Dealers of Chemical Products]

Telephone—45-3246
Gram.—Bengco.
Letter No. 1/Eng./82

213, Picnic Gardens Road,
Calcutta-19
Dated the 24th March 1982

Super Chemicals Co. Ltd.,
203, Acharya Prafulla Ch. Roy Road,
Calcutta-6.

Ref. A/Eng-3/82
Sub : Recommendation
for Sri P. G. Sengupta

Dear Sirs,

I have received your letter dated 19th March 1982. The particulars you want about Sri Pran Gopal Sengupta are stated hereunder—

(a) Sri Sengupta was an employee of this firm from 1st March 1970 to 27th February 1981.

(b) He was a clerk in our Accounts Department.

(c) His salary was Rs. 550/- at the time of his resignation from this firm.

(d) He is efficient, painstaking and has sense of responsibility. He satisfied all his co-staff and management in this firm by his performances.

(e) The reason for his resignation from this firm is that we could not hold out better prospect for him in future.

(f) I like to recommend that he can be appointed in any responsible position in your firm.

I wish him success.

Yours faithfully,
Rathin Roy,
Manager,
Bengal Chemicals Co. Ltd.

(c) **Recommending a business friend to another business friend :**

Raghunath Roy & Sons
[Paper Merchants]

Telephone—22-3146 105, Brabourne Road,
Gram—Paper Calcutta-1

Letter No. A/Sup/82 Dated 20th June 1982

Sri R. K. Mehta,
Popular Industries Ltd.,
Bombay-3

Dear Sir,

Sri Pramada Ranjan Das has been known to me for many years. He is my intimate friend. He is now a reputed dealer in varied types of chemical products. The name of his firm is 'Das & Co.'. He has earned reputation in selling various types of chemical products in Calcutta and different regions in West Bengal.

He likes to set out for Bombay for the expansion of the market for his products. Studying carefully the potentiality of the Bombay market for chemical products he is now sure that he can do good business there. He will proceed to Bombay next week. I shall feel obliged if you introduce Mr. Das to the local dealers and furnish him all information about Bombay market and your advice in this matter.

You are a reputed businessman in Bombay. I hope that you will not find any inconvenience in introducing Mr. Das in the Bombay market.

If yau provide any assistance to Mr. Das, I shall consider it a personal help to me. I assure you reciprocal service in future.

Thanking you,

Yours sincerely,
Subodh Roy,
For Raghn Nath Ray & Sons

(2) Offers and Quotations

The seller makes various offers for the products to the would be customers. There are two types of offers, namely, General and Particular. In the general offer the seller gives description of the goods and points out improved standard of his products. It takes the shape of a circular letter. Particular offer is called Quotation. In the Quotation the following particulars are given—

(a) Nature. standard and other particulars of the product; (b) price of the product; (c) terms and conditions of payment; (d) if any discount is allowed, the rate of discount; (e) the time within which the payment is to be made to enjoy cash discount; (f) when and where the goods are to be supplied and the mode of supply; (g) whether any extra payment is required for packing; (h) cost of supply etc.

(a) General offers to the customers for selling the products:

Indian Refrigerator Company Limited

[Suppliers of Refrigerators]

Telephone—22-5104
Gram.—Freeze

52/1, Bentick Street,
Calcutta-13.
Dated 14th January '82

Dear Customers,

You are all aware that we have been manufacturing refrigerators for a long time. We are now offering for sale a new and improved quality with a brand name Indian Refrigerator. We have produced this variety in our factory in collaboration with the famous Presscold Company of Italy.

We have abled to produce this quality on account of protracted research by our technicians and timely collaboration from the internationally famous Italian Company. It is automatic and inside the refregerator the temperature can be changed by means of a regulator. It has separate shelves for keeping different types of things. Cups in the icebox are made of enamel. It is made of quality machines. Electricity consumption is also very low. There are different sizes of Indian Refrigerator and small families can avail themselves of mini size. We believe that you will find it convenient for different purposes.

We are now offering 5% discount and the payment can be made in instalments. The term of the instalment purchase is that one-third of the price is to be paid on signing the agreement and the balance in monthly instalments.

We hope that you will not miss the opportunity of buying this beautiful Refrigerator of modern design and place your order to us as soon as possible.

Thanking you,

,Yours faithfully.
Indian Refrigerator Co. Ltd

(b) **Quotations :**

BHARAT STATIONERS

[Dealers in Stationery Articles]

Telephone—37-3142
Gram—Bharat
Letter No. A/Price/82

60, Mahatma Gandhi Road
Calcutta-7.
Dated the 21st May 1982
Ref. 1/Enq/82
Sub : Quotation

To
New variety Stores,
10/1, Rash Behari Avenue,
Calcutta-29.

Dear Sirs,

We are glad to acknowledge your letter dated the 20th May 1982 We quote below the the prices of the stationery articles as per your enquiry—

1. Super quality paper @ Rs. 330 - per ream
2. Ordinary paper @ Rs. 200 - per ream
3. Nataraj Pencils @ Rs. 9 - per dozen.
4. Cash Register @ Rs 6 - per piece.
5. Journal and Ledger Book @ Rs. 5 - per book

Despite the foregoing quotation we have attached herewith a price list for your convenience.

Normally we offer 2½% discount. As you are our old and esteemed customer we like to offer you 3% discount.

We think you are aware of our terms of payment. If the value of purchase is Rs. 2000 - we sell on cash basis. But when the order

exceeds Rs. 2000 - we take half of the price in cash and the balance in monthly instalments.

We supply the articles the day after the date of placement of the order. We shall deliver them to your address by our delivery van. The responsibility and all expenses are ours.

We hope that you will find our quotation lucrative and favour us with your order.

Yours faithfully,
Akshoy Kumar Sen
Manager,
Bharat Stationers.

(3) Order Letter:

The purchaser drafts the order letter and sends it to the seller. The seller delivers the goods according to the order. The description of goods, quantity, price, terms of payment, rate of discount, mode of delivery, time of delivery etc.—all these are mentioned in the order letter. All the foregoing matters are to be carefully mentioned in the order letter as it is regarded very often as the contract of sale. Otherwise conflicts may arise in future and both the parties may be placed in an awkward position.

Order for Stationery Articles

New Variety Stores

[Stationers and confectioners]

Telephone 56-2012
Gram—Variety
Letter No. 1/Ord/82

20/2 Rash Behari Avenue
Calcutta-29
Dated the 20th May 1982
Ref. A/Price/82
Sub. Placement of order

To
Bharat Stationers
80, Mahatma Gandhi Road.
Calcutta-7.

Dear Sirs,

Thank you for your quotation for stationery articles dated the 21st May 1982. We have accepted your price list and intend to place order for the following stationery articles :-

1. 10 reams Super quality paper @ Rs. 330|- per ream.
2. 20 reams ordinary paper @ Rs. 200|- per ream.
3. 20 dozen Nataraj pencils @ Rs. 9|- per dozen.
4. 10 Cash registers @ Rs. 6|- per piece.
5. 12 Journal books and 6 Ledger books @ Rs. 5|- per book.

The above mentioned articles are to be delivered to our address within 1st June 1982. Risk and expenses of delivery are yours. If the articles are not according to the sample and are damaged in transit, we shall be constrained to return them.

In accordance with your quotation we will get 3% discount and since our order exceeds Rs. 2000|-, we have to pay half of the price in cash and the balance in monthly instalments.

We shall be glad if you kindly acknowledge the receipt of our order.

Yours faithfully,
Ram Gopal Bhattacharjee
for New Variety Stores.

(4) Confirmation of Orders

Whenever the seller receives any order from the purchaser, he confirms it. If the order is not confirmed, the purchaser may take it that the order has been accepted by the seller. Sometimes the seller delivers the goods as soon as he receives the order. In that case confirmation of the order is not necessary. In the confirmation letter, at first, thanks are given to the purchaser. Then description of the goods and other necessary matters are mentioned. Finally, purchaser is requested to place order again.

Confirmation of order for Stationery Products

Bharat Stationers

[Suppliers of Stationery Articles]

Telephone No. 33-3142
Gram—Bharat
Letter No. Con-1/82

60, Mahatma Gandhi Road,
Calcutta-7
Dated the 27th May 1982
Ref. 1/Ord/82
Sub : Confirmation of order.

To

New Variety Stores
10/1. Rash Behari Avenue,
Calcutta-29.

Dear Sirs,

We acknowledge the receipt of your order for stationery products dated the 25th May 1982. We thank you for the patronage you have shown through placing order to us.

Though the articles are not in our stock, still we believe that we shall be able to deliver those articles within 1st June as per your instruction. In accordance with the terms of the payment, you have to pay half of the price in cash and the balance in monthly instalments.

We hope you will extend similar co-operation and patronage in future.

Yours faithfully.
Akshoy Kumar Sen
For Bharat Stationers.

(5) Execution of Order

After delivering the articles according to the order, the seller issues a letter intimating the execution of order. In such a letter the number and date of the letter are mentioned and the challans and other documents are attached to it. Besides, price and description of the goods and the mode of delivery are also mentioned. Finally, the seller wishes the similar co-operation and patronage in future.

Execution of order for Stationery Products

Bharat Stationers

[Suppliers of Varied Types of Stationery Articles]

Telephone—33-3142
Gram—Bharat
Letter No. A/ord./82

60, Mahatma Gandhi Road
Calcutta-7.
Dated the 30th May 1982

The Manager,
New Variety Stores,
10/1, Rash Behari Avenue,
Calcutta-29.

Dear Sir,

I would like to inform you that we have today delivered the stationery articles by our delivery van as per your order placed to us on 25th May 1982.

The following articles have been delivered—

1.	10 reams Super Quality Paper	Rs.	3300|-
2.	12 reams ordinary paper	Rs.	2400|-
3.	20 dozen Nataraj Pencils	Rs.	180|-
4.	10 Cash Registers	Rs.	60|-
5.	12 Journal Books	Rs.	60|-
6.	6 Ledger Books	Rs.	30|-
	Total	Rs.	6030|-

Kindly acknowledge the receipt of the foregoing articles.

We have prepared the invoice allowing you 3% discount. The invoice is attached herewith. In acordance with the terms of payment please pay by crossed cheque Rs. 3015|-, being the half of the price.

The articles have been packed and delivered by careful examination and supervision. Even then if you find the things are not in order, kindly return them to us.

Thank you very much for your order. Let me expect similar co-operation and patronage from you in future.

Yours faithfully,
Manas Pal
Manager
Bharat Stationers

(6) **Refusal of Order**

The seller issues a letter refusing the order of the purchaser if the goods are not in stock or if they are not produced. Sometimes, the manufacturer appoints sole-selling agents in different regions. When an order comes from a particular area, the same is referred to the sole-selling agent of that area. Sometimes the order is not refused forth-with but the other goods of the similar nature are offered.

(a) **Refusal of order for Readymade Garments**

New Bengal Dress Makers

[Reputed Dealers in Readymade Garments]

Telephone 22-0304
Gram—Garment
Letter No. A ord. 82

5, Radhabazar Street,
Calcutta-3.
Dated the 15th March 1982

Ref: 1/ord.
Sub: Refusal of Order.

To
Behrampore Stores,
3. Behrampore Main Road.,
Behrampur,
Murshidabad.

Dear Sirs,

Thank you for your order for 30 brown shirts and 30 trousers placed to us on the 10th March 1982.

We regret to inform you that we are unable to supply you those garments directly. We have appointed Messrs, Roy & Sons of 50, Nanda Kumar Road, Behrampur as our sole-selling agent for selling our readymade dresses in Behrampur and its neighbourhood.

We have already referred your order dated 10th March 1982 to Messrs, Roy & Sons. We are sure that our agent will entertain your order. Kindly send your orders to our Behrampur agent in future.

We wish your similar patronage in future.

Thanking you,

Yours faithfully,
Narendra Nath Sen
Sales Manager,
New Bengal Dress Makers.

(b) **Refusal of order for Electric Fans**

Bharat Electricals

[Suppliers of Electrical appliances]

Telephone—22-0401
Gram—Electricals
Letter No. Ord/3.

53, Netaji Subhas Road,
Calcutta-1
Dated the 20th October 1981

Ref. A/13.
Sub. Refusal of Order.

To
Bengal Commercial Co. Ltd.,
12, Lenin Sarani
Calcutta-13.

Dear Sirs,

Thank you for your order dated the 10th October 1981 for three popular fans.

We regret to inform you that our stock of popular fans has been exhausted. We are unable also to supply you the popular brand within a few months. But we have 'cooler' brand in our stock. Cooler fan is not inferior to popular brand in any respect. Moreover, we provide guarantee for cooler fans for two years. Cost of cooler fan of 48″ is Rs. 375/- and that of 56″ is Rs. 425/-. We can deliver them within five days from the date of the order.

We hope you will favour us by placing the order for cooler fans.

Wish your patronage and co-operation.

Yours faithfully.
Gopal Dutta
for Bharat Electricals

(7) **Cancellation of Orders**

Purchaser cancells the order and intimates it to the seller. Purchaser cancells the order for various reasons. When the goods are not delivered in time or the prices of goods come down abnormally in the market, purchaser finds no other way but to cancell the order. Letter cancelling the order should be framed carefully. Avoiding anger and vexation every matter should be expressed politely and courteously. But inconvenience is to be pointed out.

Cancellation of order for furniture

West Bengal Commercial Company

[Exporter & Importer]

Telephone 12-0505
Gram—Commerce
Letter No. 1-can 82

305, Old Court House Street
Calcutta-1
Dated the 10th June 1982
Ref. R/34
Sub : Cancellation of Order

To
The Manager,
Joy Bharat Furnishers
10/A, Bowbazar Street,
Calcutta-13.

Dear Sir,

We placed an order for 5 chairs, 1 table and 2 steel almirahs on 2nd May 1982 vide our order No. A/Ord 82. We have pointed out categorically that those furniture are to be delivered within 1st June 1982.

We regret to inform you that till today we have received neither the furniture nor even a letter from you. We have also drawn your attention in the letter to our inconvenience that we may face if those things are not delivered within the stipulated time. Anyway, we have already acquired those furniture. In the circumstances we find no other way but to cancell the order. Henceforth we will not accept those furniture if they are delivered to our address.

Yours faithfully,
Prabal Chakrabarty
Manager,
West Bengal Commercial Co.

(8) Collection Letters

In the business world goods are bought and sold on credit. When goods are sold on credit, the seller is required to collect dues from the purchaser. Though time for making payment is mentioned in the contract of sale, yet the seller issues letter to the purchaser requesting him to make payment. This is known as collection letter. It is to be

drafted carefully. Anger, annoyance and discourteousness should not be expressed in any case in this letter. The purpose of this letter is simply to make the debtors to pay off their dues promptly. In the first collection letter words like 'recourse to law' should not be mentioned. Litigation should always be avoided. But if after repeated reminders no reply comes from the debtor, he is to be scared by pointing out that the matter be placed in the hands of lawyer.

(a) First Letter

New Bengal Paper Company

[Reputed Paper Merchant]

Telephone 33-2145
Gram—Paper
Letter No. C 103 82

15 3, Mahatma Gandhi Rd.,
Calcutta-7
Dated the 3rd February 1982

To
Messrs, Chakrabarty & Sons,
50B, Sadananda Road,
Calcutta-26.

Sub : Collection of dues

Dear Sirs,

We delivered super quality paper of the value of Rs 6000/- on the 3rd May 1981 as per your order dated the 20th April 1981. According to the terms of agreement you ought to have cleared off the due amount within six months after the delivery. Nine months have already been elapsed but we have received neither the amount due nor any letter from you intimating the reasons for such inordinate delay in clearing off the due. We did business with you in the past. We always found you prompt in making payment. In this circumstance we feel compelled to draw your attention.

We hope that you will endeavour to pay off the due amount within ten days from the receipt of this letter.

Yours faithfully,
Asis Majumdar
for New Bengal Paper Co.

(b) **Second Letter**

New Bengal Paper Co.

[Reputed Paper Merchant]

Telephone 33-2145
Gram—Paper
Letter No. C/105/82

15/3, Mahatma Gandhi Rd.
Calcutta-7.
Dated the 20th February '82

To
Messes, Chakrabarty & Sons
50B, Sadananda Road
Calcutta-26.

Sub : Collection of dues

Dear Sirs,

Kindly refer to our letter No. C/103/82 dated the 3rd Ferbuary 1982 requesting you to clear the amount due for delivering the super quality paper of the value of Rs. 6000/-.

We regret to inform you that we have not received any reply from you as yet. According to the terms of agreement payment ought to have been made, within six months after delivery. We have extended the time to ten days more. Even then we have not received anything from you. In the circumstances we request you again to make payment within a week from the receipt of this letter. If the amount due is not cleared off within the week, we shall be compelled much against our desire to place the matter in the hands of our lawyer.

Yours faithfully,
Asis Majumdar
for New Bengal Paper Co.

(9) **Letters Relating to Agency**

The objective of every business is to extend the market for the product. When the market is expanded, it is not practicable for single businessman or the central office to supply the products to the different markets. It is not feasible also to maintain the markets in different areas. That is why, agents are appointed for different markets in different areas. The central office exchanges letters with different agents. This letter is called agency letter. Agency is sought from the big businessman or manufacturer for selling the

product in a particular area. On the other hand, big business firm apponits agents in different areas. For all these purposes agency letters are drafted. Besides, the central office may enquire from the different agents about the fall in demand for the product, necessity for reducing the price, reasons for reduced sales, low quality standard etc. For all these letters are exchanged between them.

(a) Seeking for Agency

Bangalaksmi Perfumers

[Suppliers of Perfumed Products]

Telephone 23-3145
Gram—Banga
Letter No. A/Ag/82

31/A, Radhabazar St.,
Calcutta-12
Dated the 4th July 1982

To
The Manager,
Kamala Perfumers,
10, Khaira Road,
Bombay-3.

Sub : Soliciting Agency

Dear Sirs,

For a long time we have been selling perfumed products in calcutta and in different areas in West Bengal. We have earned reputation in selling these products. We are now a reputed dealer in perfumery. We have made this reputation on account of our constant and scientific advertisement and unique salesmanship of our efficient salesmanagers and expert salesmen.

Market in calcutta for your perfumed product is very potential. Our careful study reveals that your products have tremendous demand in calcutta market. We have already sold your products in calcutta and in many areas in West Bengal by purchasing those products directly from your firm. This has revealed again the potentiality of the market for your products in West Bengal. If we are offered agency, we shall be able to create a superb market for your products by means of constant advertisement and unique salesmanship. For the last few years we have been representing in this area two reputed firms of Kanpur and Kerala.

We have selling centres in calcutta and in different areas in West Bengal. Well decorated showrooms are also attached to some of these selling centres. We have already invested in our business Rupees three lakh as capital.

Normally we claim 20% commission. All risks and expenses for the supply of the products to calcutta are yours.

You may refer to a reputed business firm Bharat Perfumers of 30/B, Arvind Sarani calcutta-7 for further information in respect of us.

We hope that you will give us the opportunity of representing you in this market and facilitate us in establishing a good business relation with wou.

Wish your patronage in this matter.

Yours faithfully,
Asit Dutta
For Banga lakshmi Perfumers

(b) **Offering Agency**

Eastern Cotton Mills

[Cloth Producers]

Telephone 22-0204-06 — 12, Netaji Subhas Road,
Gram—Eastern — Calcutta-1
Letter No. 1/Ag/82 — Dated the 3rd July 1982

To
Messrs. S. Ovanlal Madanlal Shah,
14, Gokhale Road,
Bombay-3

Sub. Offer for Agency.

Dear Sirs,

I would like to inform you that our mills sell their produced cloths in different areas in India. We have already appointed many reputed firms in different areas as our agents. But in Bombay we have no agent. Our salemanager has toured Bombay. He is of opinion that our cloths have demand in Bombay and its neighbourhood. Moreover, every year some reputed cloth dealers in Bombay buy our cloths directly from us.

We have learnt from reliable sources that you have gained tremendous goodwill in Bombay as a cloth dealer. Hence, we like to appoint you as our sole-selling agent in Bombay. We believe that you will not find any difficulty in selling our cloths there. If you can increase the demand for our cloths in Bombay market by your earnest endeavour, we both shall be benefited. Of course, we shall help your selling efforts every time by our planned advertisement campaign.

Hope you will accept our offer for agency and write to us intimating your terms and conditions.

Yours faithfully,
Anadi Bardhan
Chief Executive
Eastern Cotton Mills

Questions

1. On behalf of a firm draft a letter of recommendation stating therein all particulars respecting an ex-employee and address it to another firm.
2. Draft a letter recommending a business friend to another business friend.
3. A firm has sent a letter to you asking all particulars in respect of an applicant. Draft a reply.
4. A firm wants to offer for sale to its customers a new brand of electric fan produced by it. Draft a letter on behalf of the firm.
5. In reply to an enquiry by a firm draft a letter quoting readymade garments.
6. Confirm the order for the supply of different types of clothes.
7. Draft a letter after executing the order of certain stationery products to a firm.
8. You have got an order for the supply of cycles tyres and tubes. But since you have not in your stock such a brand of tyres and tubes, draft a letter refusing the order.
9. You have got an order for the supply of electric fans. But you have not in your stock such a brand of electric fans. Refuse the order but try tactfully to get the order from your customer for another brand.

10. You have placed an order to a firm for the supply of certain chemical products. Since much time has been taken for its execution, cancel the order.

11. According to the contract the time for payment has been expired. Draft a letter requesting the customer to make payment within a month.

12. On behalf of a firm in Calcutta draft a letter requesting to act as an agent of a cotton mill in Bombay.

13. On behalf of a firm in Bombay draft a letter offering agency of perfumed products to a firm in Calcutta.

14. According to the contract the time for payment has been expired. After that a month's time has been given to a customer. But since the customer has not made payment within that time, draft a letter making it clear to him that legal action will be taken if payment is not made within a week.

15. As a result of the delay in procuring raw materials as well as irregular power supply to the factory, Eastern Drug Manufacturers Ltd. Calcutta, could not execute in due time the order placed by Popular Medicine Distributors Co. Agartala.

Draft a suitable letter on behalf of the firm in Calcutta requesting the firm in Agartala for extending the time for execution of the aforesaid order by a further period of 15 days. [H.S. 1978]

16. (a) Draft a letter for S. N. Chatterjee (P) Ltd., Calcutta inviting quotations for a lathe machine from Tuskar Engineering Bombay.

(b) Draft another letter on behalf of Rinton Co. Calcutta, politely reminding Messrs. Philip and Harris, a firm of Patna, about payment of dues in respect of a calculating machine supplied two months back on a month's credit. [H.S. 1979]

17. State the parts into which a good business letter may be divided. Why is it important to attend with care to the outward form of business letter ? How would you indicate the enclosure in a letter ? What are uses of references in a letter ?

CHAPTER—VIII

MEETINGS

What is Meeting ?

When two or more persons assemble in a place to discuss some matters according to a given notice or on the unanimous decision of them, it is called Meeting.

In all democratic organisations meeting is necessary. Meetings are held in clubs, associations, business enterprises, legislative assemblies, parliament, government undertakings etc. Members discuss matters of their common interest in the meeting. Decisions in the meeting are taken on majority principle.

Minimum two persons are necessary to hold a meeting. Of course, in certain cases one-man meeting is also held. In a public limited company meeting of one person can be held. For example, if the board of directors appoints one man committee, then in that case the committee meeting of one person can be held. If there is only one creditor of a company or if there is only one shareholder of a particular class of share, the class meeting or the creditors' meeting of the company can be held by one person. The central Government may also direct a company to hold the annual general meeting of one person only.

Requisites of a valid Meeting :

When the business of a meeting is transacted validly, it is known valid meeting. If the meeting is not held validly, it may be cancelled afterwards. Decisions taken at any invalid meeting are not effective. The following are the requisites of a valid meeting—

(1) It must be convened or called properly. The meeting must be convened by that person who is entitled to convene it in accordance with the rules of he enterprise.

(2) All members of the enterprise should be given proper and adequate notice before holding of the meeting.

(3) A quorum of members must be present at the time of holding the meeting and it must be maintained throughout the meeting.

(4) A chairman is to be elected properly to preside over the meeting.

(5) The proceedings of the meeting must be conducted in accordance with the rules.

Notice of Meeting

Meeting must be convened by issuing a proper notice. Whenever instructed by the convener of the meeting, the secretary prepares the notice. All members entitled to attend the meeting must be served with notice. The notice must specify the date, time, place and the objective of the meeting. A meeting cannot be convened or held lawfully unless a proper notice is issued.

A notice is to be prepared considering carefully the following matters—

(1) **A notice should preferably be in writing:** If it is not in writing, it will be very difficult to prove afterwards that the meeting has been held by issuing a proper notice. It is sent to all the members by post or by messenger.

(2) **The notice must specify clearly the date, time and place of the meeting.** Sometimes in some meetings the date, time and place of the next meeting are determined.

(3) The objective of the meeting is specified in the notice. In other words, **the notice must state the agenda of the meeting.** For the purpose of conducting the meeting conveniently the report or the resolution to be placed in the meeting is attached to the notice.

(4) **Notice should be given a few days before the holding of the meeting.** The length of notice is dependent on the rules or byelaws of the institution. In accordance with the provisions of the Companies Act, at least 21 days notice is to be given to all the shareholders before holding the annual general meeting. The articles of association of a company prescrible the length of notice for different classes of meetings.

Agenda:

The sum total of businesses to be transacted in a meeting is called Agenda. The word 'agenda' means things to be done. It is necessary for conducting the meeting smoothly. Agenda is prepared to consider all matters of the meeting orderly and systematically. And there is no possibility of commission of any business erroneously. The matters which are included in the agenda are discussed in the meeting. Of course, the business which is not included in the agenda can be transacted in the meeting with the permission of the chairman. The chairman places in the meeting the items of agenda for discussion in the same order as these are given in the agenda. The chairman can, of course, alter the order of the agenda with the approval of the members present in the meeting. In other words, he can place first in the meeting those items of agenda for consideration which are given at the end of the agenda.

Similarly, the items which constitute the first part of the agenda can be discussed at the end. The order of the agenda is determined according to the importance of the different items. Normally, the routine items are placed first and the controversial items at the later part of the agenda.

The secretary prepares the agenda in consultation with the chief executive or chairman of the meeting. The matters to be discussed in the meeting are stated briefly in the agenda. But these items of agenda are to be mentioned clearly so that the chairman and other members can follow them. Normally, agenda is stated in the notice and in such a way that it constitutes the part of the notice. Sometimes, agenda is mentioned in a separate slip of paper and attached to the notice. When the meeting starts, the agenda is written in a slip of paper and handed over to the president. Items of agenda are stated in the left hand side of the loose paper leaving sufficient space on the right hand so that the chairman or the secretary can make notes during the meeting. This note making is called **Agenda Note.** Sometimes, agenda book is maintained and it is given to the chairman during the meeting. In this agenda book also agenda is recorded in the left hand side leaving a wide margin on the right hand side. The secretary makes his own notes against each item of agenda after their discussion. This helps him a lot in recording the minutes of the meeting. Very often secretary keeps the agenda book and takes down briefly the discussion of the different items.

Chairman :

Usually a Chairman is appointed in accordance with the Articles of a company. The Articles of a joint stock company usually lay down the procedure for the appointment of a chairman. If it is not provided in the Articles each meeting elects a Chairman before proceeding to transact the business. A chairman so appointed either by the Articles or by the meeting is entitled to preside over all meetings of the company whether of directors or of shareholders.

A chairman must necessarily be a member of the company. But he must be selected carefully as he may be required to tackle difficult situations with skill and courage. He should possess skill, tact, patience and knowledge.

Powers, Functions and Duties

The first thing a chairman should see is that his appointment is in order and the meeting is valid. His main function is to conduct the meeting in an orderly way and to see that members present are

entitled to attend the meeting as some members may be barred from attending the meeting in accordance with the provisions of law or bye laws. Before a meeting is started he must see that the quorum is present. He must take up the items in accordance with the agenda mentioned in the notice circulated to the members before the meeting. He must not allow irrelevant discussions in the meeting and must not take up items not given in the agenda.

He should see that the majority are not in a position to suppress the minority and every body is allowed to take part in the discussion. In other words, everybody is allowed to speak but except the mover of a resolution, none is allowed a second speech. It is his duty to put all motions and resolutions to vote either by show of hands or by poll. In case of poll he must scrutinise votes carefully to ascertain the majority.

When a meeting is started, the first duty of a chairman is to allow the secretary to read the notice convening the meeting. While taking up the agenda he must see that the minutes of the last meeting are recorded properly, to get the minutes confirmed and to sign the same when approved by the members. Then if he likes he can address a meeting and generally in an Annual General Meeting of a public company chairman gives a speech in respect of the working of the company during the period under review.

It is his duty to maintain order and decorum in the meeting. At first his duty is to request a disorderly person to behave properly. But even after his repeated hammering the person behaves improperly he can compell that person to retire or expell him by force. When he is not in a position to maintain order, he can adjourn the meeting. He can, of course, adjourn the meeting when quorum is not present or when the business is done completely.

He should conduct the meeting properly and in a manner that may facilitate the transaction of business smoothly and speedily. He must not allow discussion of any motion which is not properly seconded or outside the scope of the meeting. It is his right to decide the priority of speakers. If in a meeting two speakers rise at a time to speak first, his duty is to decide as to who will speak first. His ruling in the matter is final and binding. Again, while a discussion is going on in respect of a motion, if a member gets up and raises a point of order, that is, if a member questions the relevancy of the speech to the motion, chairman's duty is to give a ruling to settle the point of order. Before giving his ruling he can consult the senior members or expert officials but when he gives his ruling it is binding on all members.

Any member can move an amendment of the original motion. In that case he should see that the amendment is in an affirmative form and not directly negative. The amendment must be properly seconded. When every body speaks on the amendment, his duty is to put it to vote. If passed, he should allow the original motion along with the amendment to be taken up. If lost, he should take up only the orginal motion.

The chairman has two votes, deliberative vote and casting vote. He is entitled to give deliberative vote as a member of the company. He is entitled to give his casting vote when the members are divided equally on any issue. That is, the vote which he can exercise when there is a tie provided, of course, the Articles of the company allow him to cast such a tie breaking vote.

Quorum

Quorum means a minimum number of persons that must be present in the meeting in order that the business may be transacted validly. If the minimum number of members as prescribed by law or bye law of a body is not present in any meeting, the decisions taken at that meeting are not valid. The basic idea behind insistence on quorum to be present in a meeting is that the decision taken by the minority members in a meeting may not be acceptable to the majority. That is why, in majority of the incorporated bodies, a major number of persons are fixed as quorum. The Companies Act '56 has prescribed five members, in the case of a public company and two members for a private limited company as quorum.

Quorum must be present at the starting of the meeting and all along the meeting continues. If at the starting of the meeting quorum is not present, the chairman may wait for half an hour or such time as the law or rule may prescribe and then adjourn the meeting. If the number of members present in the meeting falls short of quorum while the meeting is in progress the Chairman must stop transaction of business. Any business transacted at the time when the quorum is not present is not taken as valid. In this case also the chairman may adjourn the meeting. The meeting thus adjourned on account of the absence of quorum is to be held next week on the same day at the same place and at the same time unless otherwise provided in the Articles of the company. An adjourned meeting does not require quorum.

Recording of Minutes

The written record of the proceedings, resolutions and decisions taken at the meeting is known as Minutes. Proceedings, resolutions

and decisions of the meeting are always recorded. Otherwise it will be very difficult to prove in future what resolutions and decisions have been taken in the meeting. In all democratic organisations affairs are managed and directed according to the decisions of the meeting. In fact, the decisions of the meeting are given shape to. Therefore, if the resolutions and decisions are not recorded, the activities of the enterprise cannot be performed smoothly. In the case of a company, business affairs are conducted according to the decision taken at the board meeting. That is why, proceedings of all company meetings are recorded. When the chairman initials the minutes of the meeting it becomes a document.

The responsibility of recording minutes is entrusted to the secretary. During the meeting he makes his own notes of all discussions, decisions taken and resolutions adoted in the meeting. The Secretary takes notes in a loose paper or in the agenda book against each item of agenda. At the end of the meeting he records all decisions and resolutions in the minute book from his notes. **The book where proceedings, decisions and resolutions of the meeting are recorded is known as Minute Book.** All pages of the minute book are consecutively numbered and the chairman gives his signature in every page of the minute book.

The minute book is to be recorded clearly and neatly. Care is to be taken to see that nothing is ommitted to be recorded in the minute book. Different matters are to be written in different paragraphs. Each paragraph is to be provided with a heading so that the relevant decision or resolution can easily be found out. Details of the proceedings of a meeting need not be recorded in the minute book. Only the important matters and all decisions and resolutions are recorded in the minutes. The words and sentences with which the decisions are taken and resolutions adopted in the meetings, the same words and sentences have to be used in recording the minutes. If the secretary uses his own words, the minutes may convey different meanings.

The chairman does not affix his signature in the minutes forthwith. These minutes are placed in the next meeting for the approval of the members. On the instruction of the chairman the secretary reads out minutes of the last meeting. When the minutes are confirmed by the members present in the meeting, the chairman affixes his signature in the minutes. If a member points out that a particular decision or resolution is not recorded properly in the minutes, the chairman considers it, if necessary amends it and then gives his signature. Sometimes minutes of the last meeting are attached to the notice of the next meeting. This facilitates the members to examine carefully whether all

decisions or resolutions of the last meeting have been recorded correctly.

The following is the procedure of recording minutes—

(1) Firstly, the class of the meeting, number of the meeting, time, date and place of the meeting are to be recorded. For example, "Minutes of the proceedings of the 46th Annual General meeting held on Saturday, the 5th July 1980 at 2 p.m. in the registered office of the company."

(2) Secondly, the name of the Chairman of the meeting is mentioned.

(3) Thirdly, in the case of a company meeting the names of directors present in the meeting are mentioned.

(4) Fourthly, the names of the members present in the meeting are recorded. In the case of a big company the names of a large number of members can not be recorded in the minutes. In that case a list of members is attached to the minutes as appendix.

(5) Fifthly, the decisions and resolutions of the meeting are recorded. Different decisions and resolutions are to be written in different pragraphs. While the recording the resolutions the names of movers and seconders are also mentioned.

(6) Then statements, reports, accounts etc., placed in the meeting are referred. Usually these documents are attached to the minutes as appendix.

(7) Finally, it is mentioned that the meeting ended with thanks to the chairman.

Company Meetings

Company meetings are generally of two types, namely, Meeting of the Board of Directors and the Shareholders' Meeting.

There are again three types of shareholders' meetings, namely, (a) Statutory Meeting, (b) Annual General Meeting and (c) Extra-ordinary General Meeting.

Meetings of a Board of Directors

Board of Directors is the administrative as well as the executive head of a company. All powers of management are vested with the board of directors. Directors are elected from among the members. Individually directors cannot act. They have collective responsibility unless, of course, a special duty and/or power is delegated to a director. Since the directors are to act collectively, they decide every thing by holding meetings. They exercise their powers by means of resolutions passed in the meetings.

Provisions of the Companies Act in respect of the board meeting may be stated as follows—

(a) In every company a meeting of its board of directors must be held at least once in every three months and four such meetings must be held in a year.

(b) Notice of every board meeting of a company must be given in writing to all directors and is to be sent to their registered addresses in India.

(c) The quorum for a meeting shall be one-third of the total strength in a board or two directors whichever is higher.

(d) If in a meeting some of the directors exceeding two-thirds or equal to the two-thirds of the total strength cannot participate for discussion of a contract in which they are interested, the remaining directors shall form the quorum provided the number of Directors must not be less than two.

(e) If a board meeting is not held for want of quorum, it will be adjourned to the same day in the next week at the same place and time. Articles of the company may provide otherwise. Quorum is not necessary in an adjourned meeting.

Annual General Meeting

The Annual General Meeting is the meeting of the shareholders. Every company is required to hold such a meeting at the end of the financial period. At this meeting the directors are required to place before the shareholders the Profit and Loss Account and Balance Sheet of the company showing the net result of the business for the financial year, the financial position of the company as on the last day of the financial year and also the amount and the rate of dividend to be payable to shareholders. Usually, in accordance with the provisions of the Company Law the directors are to give a notice of such a meeting along with copies of the Profit and Loss Account and Balance Sheet of the company at least 21 days before the meeting. A directors' report is also sent to the shareholders. The directors' report shows the business done by the company during the accounting year, progress made and the general position of the company. This report is also read out in the meeting.

Every company is required to hold the first Annual General Meeting within 18 months from the date of its incorporation. Thereafter the general meeting is to be held at least once in a calender year within 9 months after the expiry of the financial year. There should be an interval of not more than 15 months between the date of one Annual General Meeting and that of the next. The Registrar of

Companies may extend the date of the Annual General Meeting (other than the First Annual General Meeting of the company) for a further period not exceeding six months for any special reason. A public limited company or a private company, which is subsidiary to a public company may fix up the date of its next Annual General Meeting by a resolution that must be passed in a general meeting. In case the meeting is not held within the scheduled time, the Central Government on receipt of an application from any member of the company may call such a meeting. The Central Government may also direct the calling of an Annual General Meeting and issue necessary directives as it thinks fit for holding and conducting such a meeting.

Generally the meeting is called within business hours and at the registered office of the company. If not, it is called at any other place within the city or town or village where the registered office is situated.

Statutory Meeting

Statutory meeting is the first meeting of the shareholders. It must be held within six months but not less than one month from the date at which the company is entitled to commence business. All matters releating to the formation of the company are considered at this meeting. This meeting is held mainly for the purpose of informing the shareholders about the financial position of the company at the time of the starting of the business. For this purpose the directors are required to prepare a report, known as Statutory Report which must contain all particulars concerning the allotment of shares, receipts and payments of cash, appointment of auditors etc. A private limited company is not required to hold such a meeting nor is required to prepare such a statutory report.

Extra-Ordinary General Meeting

This type of meeting of the members is held for the purpose of transacting certain special or urgent business for which the company cannot wait till the next Annual General Meeting. If an urgent business that requires shareholders' approval is required to be transacted, the directors call an extra-ordinary general meeting of the members by giving a notice of 21 days. It can also be called by the directors on the requisition of members holding shares not less than one tenth of the paid up capital of the company. And in the case of a company having no share capital Extra-ordinary General Meeting can be called on the requisition of members who hold not less than one-tenth of the voting rights. On receiving such a requisition the board must issue

a notice within 21 days from the date of requisition for holding such a meeting at a date within 45 days from the date of requisition. If the meeting is not held within 45 days the member-requisitionists may hold such a meeting within a period of three months from the date of requisition. Any expense incurred by the afore-said members in connection therewith shall be paid by the company. The company may, however, recover such expense from the directors. All resolutions passed properly in such a meeting are binding on the company. The notice for holding an Extra-ordinary General Meeting must state the object of the meeting, particularly if any special resolution is to be adopted.

Drafting of Notice

Specimen notice of the Annual General Meeting of a Club—
Calcutta Youth Club

14/1, Rashbehari Avenue, Calcutta-700029

Phone—46-0407 Dated the 1st June, 1981

It is hereby notified for information to the members that the annual general meeting of the club will be held on Sunday, the 6th July 1981 at the club premises at 4 p.m. All members are requested to be present. The meeting will consider the following agenda.

Manabendra Bosu
Secretary
Calcutta Youth Club.

Agenda

1. To confirm the minutes of the last meeting.
2. To consider the Annual Report of the secretary.
3. To approve the audited accounts and auditor's report.
4. To consider the budget estimate for the period under review.
5. To appoint auditor for the current year.
6. To elect the secretary, chairman and members of the management committee.
7. Any other business with the approval of the chair.

Specimen notice of the Annual General Meeting of a Co-operative Society—

Calcutta Copperative Credit Society Ltd.

153, Netaji Subhas Road, Calcutta-700001

Phone—22-0804-05 Dated 2nd June, 1982

It is hereby notified that the annual general meeting of the society will be held on Monday, the 6th July, 1982 at 5 p.m. at 153, Netaji Subhas Road, the registered office of the society. All members are requested to attend the meeting. The meeting will consider the following agenda.

By order of the Committee,
Prankrishna Basu
Secretary.

Agenda—

1. To confirm the minutes of the last annual meeting.
2. To consider the secretary's annual report.
3. To approve the audited accounts and balance sheet and the auditor's report.
4. To receive and sanction the declaration of dividend
5. To determine the ceiling of credit to be provided to the members.
6. To consider the budget estimate for the next financial year.
7. To appoint the auditor and to consider his remuneration.
8. To elect Chairman, Secretary, members of the management committee and other officers.
9. Anyother business with the approval of the chair.

Specimen Notice of an Annual General Meeting of a Company

United Commercial Corporation Ltd.

2, Netaji Subhas Road,
Calcutta-1

Phone : 22-4764—67 Dated, Calcutta the 28th
Gram : UCCI February, 1982

Notice is hereby given that the Thirty-third Annual General Meeting of the company will be held on Thursday, the 31st March 1982, at the registered office of the company, 2, Netaji Subhas Road, Calcutta-1, at 2 p.m. to consider the following—

1. To receive and consider the Audited Accounts for the year ended 31st December 1981 and the Balance Sheet as on that date and the Reports of the Directors and the Auditors.
2. To receive and sanction the declaration of dividend.

3. To elect a new Director and another one in place of Sri R. K. Sinha Roy who retires by rotation but is eligible for re-election.

4. To appoint the Auditors for the current financial year and consider their remuneration.

5. To consider the appointment of Messrs. R. K. Pengyong & Co. as a sole selling agent in Singapore.

6. Any other business with the approval of the chair.

By Order of the Board
B. Biswas
Secretary.

Note : The Share Transfer Books of the company will remain closed from 23rd March to 31st March 1982 both days inclusive.

Specimen Notice of a Board Meeting

United Commercial Corporation Ltd.
2, Netaji Subhas Road,
Calcutta-1.

Dated, Calcutta
the 10th Feb., 1981.

Telephone
22-5486
Gram—UCCL

To
Sri Birendra Nath Mukherjee,
Director.

Dear Sir,

I should like to inform you that the quarterly meeting of the board of directors will be held on Thursday, the 20th February 1981, at the registered office of the company at 2 p.m. to consider the following agenda.

Yours faithfully,
S. Biswas
Secretary.

Agenda :

1. Confirmation of the minutes of the last meeting held on 4th November 1980.

2. Approval of the directors' report to be placed in the next Annual General Meeting.

3. Election of Mr. S. K. Banerjee as the director of the company.

4. Approval of Accountant's report to be sent to the Central Government for granting loans during the sixth fixe-year plan.

5. Any other matter with the approval of the chair.

Specimen Minutes of the Annual General Meeting

The minutes of the proceedings of the Thirty-third Annual General Meeting of the company held on Thursday, the 31st March, 1982, at the registered office of the company at 2 p.m.

1. *Members Present*—

   1. Mr. S. M. Bose, Chairman
   2. Mr. R. K. Tewari, Director
   3. Mr. R. C. Merhotra, Director
   4. Mr. J. C. Doshi, Director
   5. Mr. P. D. Singhania, Director

and Fifty others whose names are recorded in the Annexure of the Minute Book.

1. Mr. S. M. Bose took the chair.

2. **Reading of notice**—

2. The notice convening the meeting was read by the secretary, Mr. S. Biswas.

3. **Minutes of last meeting**—

3. The minutes of the last Annual General Meeting were read, confirmed and signed.

4. **Presentation of accounts**—

4. With the consent of the members present the chairman took the audited accounts for the year ended 31st December, 1981 and the Balance Sheet as on that date as read.

5. **Directors' Report**—

5. The Chairman permitted the Secretary to read the Directors' Report.

6. **Auditor's Report**—

6. Auditor's Report was taken as read with the consent of the members present.

7. On the Chairman's proposal being seconded by Mr. J. C. Doshi, it was resolved unanimously that the directors' report and audited accounts for the year 1981 be approved and adopted.

7. **Declaration of Dividend**—

8. On the chairman's proposal being seconded by Mr. R. K. Tewari, it was resolved unanimously that a dividend of 6% on ordinary shares, as recommended by the board, be declared and approved

for the year. Further resolved that the dividend be paid to those whose names recorded as members in he Register of Members on the closing day, the 23rd March 1981.

8. **Appointment of Director—**

9. The Chairman placed before the meeting the candidature of Mr. R. N. Banerjee, an eminent engineer as director and on the chairman's motion being seconded by Mr. P. D. Singhania it was resolved unanimously that Mr. R. N. Banerjee be appointed as director of the company.

Mr. R. K. Tewari proposed, seconded by Mr. S.K. Mitra, it was resolved unanimously that Mr. R.K. Singh Roy be re-elected as director of the company.

9. **Appointment of Auditor—**

10. Mr. S. K. Mitra proposed, seconded by Mr. P. N. Saha, it was resolved that Messrs. R. K. Ray & Co., chartered Accountants be re-appointed as Auditors for the year and their remuneration was fixed at Rs. 1,500/-.

10. **Appointment of Sole-selling Agent—**

11. On the proposal of Mr. Doshi and the same being seconded by Mr. Singhnia, it was resolved that Messrs. Pengyong & Co. be appointed as sole selling agent for selling company's products at Singapore.

11. **Thanks to the Chairman—**

12. The meeting terminated with a vote of thanks to the Chair. The motion was moved by Mr. Singhania and seconded by Mr. Merhotra.

Dated the............ Chairman.

QUESTIONS

Essay Type:

1. What is Meeting? What are the requisites of valid meeting?
[Ans. What is Meeting—Requisites of a valid Meeting]

2. Who is a Chairman? How is a Chairman appointed? Write what you know about the powers, functions and duties of a Chairman.
[Ans. Chairman—power, duties and functions]

3. What are Minutes? How are the Minutes of the proceedings of a meeting recorded?
[Ans. Recording of Minutes]

4. (a) Briefly elucidate the essential requirements of a valid meeting.

(b) What do you understand by Minutes of a Meeting?

[Ans. Requisites of valid Meeting—Recording of Minutes]

5. Write short notes on—

(a) Notice of a Meeting, (b) Agenda Note, (c) Quorum, (d) Chairman. [H.S. 1978]

[Ans. Notice of Meeting Agenda—Quorum Chairman]

Short Answer Type:

1. You are the Secretary of your club. Draft a notice of the annual meeting of your club with imaginary agenda.

2. Suppose you are the secretary of a Co-orperative Association. The Annual General Meeting of the association will be held on 3rd December 1981. Draft notice with usual agenda.

3. As a secretory of a company draft a notice of the Annual General Meeting with usual agenda.

4. Draft a notice of the board meeting of a company with imaginary agenda.

5. Suppose you are the secretary of your College or School Students Union. Draft the minutes of the proceedings of any meeting of the Union.

6. The Annual General Meeting of a co-operative association was held on 10th August 1981. Usual agenda were considered in the meeting. Draft the minutes of the proceedings of the meeting.

7. As a secretory of a company draft the minutes of the proceedings of any meeting of the Board of Directors.

8. Write short notes on—(a) Notice, (b) Agenda, (c) Quorum, (d) Statutory Meeting, (e) Extra-ordinary General Meeting.

Objective Type:

1. Who conducts the meeting?
2. Why is Quorum necessary in a meeting?
3. Why is notice given to the members before holding the meeting?
4. Why are minutes of a meeting recorded?
5. When can a chairman adjourn a meeting?

QUESTIONS

West Bengal Council of H. S. Examination, 1980

BUSINESS ORGANISATION

First Paper

1. (a) What is Business? (b) "Risk-bearing is one of the common basic features of business." Elucidate the statement. (c) Explain how inter-dependence and co-operation among different parts of society is fostered through business.

Or, (a) What is meant by Promotion of business? (b) While promoting a business, what matters are generally required to be investigated? (c) Besides earning profit, for what other purposes does a promoter join a business?

2. Define Industry, Trade and Commerce. Discuss their inter-relationship with the help of an example.

3. (a) What is meant by personal aspects of business? (b) "A business undertaking has its own separate entity." Justify the statement.

4. (a) Explain the significance of economic objectives of business.

(b) Mention which of the following objectives of business are economic or social in nature: Production and sale; supply of goods at a reasonable price; minimising environmental pollution; payment of reasonable wages to workers.

Or, Analyse and illustrate the inter-relationship of Economy, Society and Business.

5. (a) Explain the meaning of the terms "Capital" and "Profit".

(b) What is meant by Turnover of capital? (c) Explain with the help of a simple illustration how Gross Profit and Net Profit of a business firm are expressed as percentage on its Turnover.

6. (a) Discuss the importance of the functions of Middlemen to buyers and sellers. (b) Explain the difference between Stock-holding and Hoarding.

Or, (a) What, according to the current official criterion, is the respective amount of capital in each of small, medium and large-scale business firms?

(b) Discuss the role of medium and small-scale business in increasing employment and domestic output in India.

7. (a) Mention three essential aspects of a buying-selling transaction.

(b) What are the different ways of indicating quality standards of Tea, Jute and Cloth? (c) What are the Units of sale and weight of Milk, Paper and Wheat? (d) Describe the different methods of payment of price by a trade through Bank.

8. Discuss the importance of raw-material, power resources, labour and transport in selecting the site for a factory. Give your answer with reference to the Government controlled Durgapur Steel factory.

9. (a) Mention three different forms of large-scale retailing. (b) Name a large-scale manufacturing concern, which sells its products through its own shops, and describe the advantages and disadvantages of such an arrangement.

10. Write short notes on the following :—(a) Organised sector of business; (b) Foreign collaboration; (c) Channels of distribution.

Second Paper

1. Explain the nature and purpose of any three of the following documents used in the case of foreign trade :

(a) Import Licence : (b) Letter of Credit : (c) Bill of Lading : (d) Shipping Bill.

2. Distinguish between (a) Current Deposit Account and Savings Deposit Account with a Bank, and (b) Open cheque and Crossed Cheque.

3 (a) Explain with examples the significance of the principles of "Insurable Interest" and "Indemnity" in a general insurance contract.

(b) Describe the procedure of making a claim and its settlement under a Fire Insurance Policy.

4. (a) "Expenditure on Advertisement increases the price of the goods." —Examine the justifiability of the statement (b) Discuss the importance of Salesmanship in business.

5. (a) Discuss the importance of transport in the growth and development of business (b Explain the cases where inland water transport is advantageous.

6. Discuss the advantages and disadvantages of Sole Proprietorship business

Or, Give a short description of the role of Government as Arbitrator of disputes in the field of industry and commerce.

7. (a) What is a Government Company and what are its main features ? (b) Give two examples of Government Company in India.
Or, Write short notes on (a) Industrial Development Bank of India and (b) Public Sector Banks.

8 Describe briefly the uses of the following appliances in a business office (a) Duplicating Machine : (b) Dictaphone : (c) Postal Faranking Machine.

9. (a) Give the specimen of the layout of a business letter. (b) Glamour Dress Agency, Calcutta, have despatched today by rail a consignment of ready-made grament worth Rs. 5,000/- to Grand Distributors Ltd., Jamshedpur in accordance with their order Draft a letter on behalf of the Calcutta firm advising the firm in Jamshedpur of the execution of their order and mentioning the relevent documents.

10. (a) What is meant by a valid meeting ? (b) What principles are required to be observed in drafting the notice of a meeting ? (c) Explain the importance of the Agenda of a meeting.

Higher Secondary Examination, 1981

First Paper

1. (a) Indicate the difference between local business and national business. (b) Discuss organisation surplus creation and public purpose as basic common features of business.

Or, Discuss the different steps in promoting a business.

2. (a) Business is a total system. Explain this statement.
(b) Mention the main divisions of this system.

3. (a) Describe briefly the principal objectives of business.
(b) Explain the importance of harmonising different objectives.
Or, Explain the idea of social responsibility of business.

4. (a) State the different types of capital in business. (b) What is the different between legitimate and illegitimate profit? (c) What is meant by profiteering?

5. (a) What is meant by speculation? (b) Explain fully the meaning of turnover of stocks. (c) Mention the essential aspects of any buying-selling transacton.

Or, Write short notes on—
(a) Mixed economy, (b) Public sector, (c) Joint sector.

6. (a) Define industry. (b) Discuss the importance of the human aspect of industry.

7. (a) Who are middlemen? (b) Discuss with reasons whether middlemen are necessary or not in the distribution of commodities.

8. (a) What is meant by departmental stores? (b) Discuss about their features, locally and premises.

9. (a) What is the distinction between Hire purchase and Instalment purchase? (b) State their advantages.

10. (a) What is extractive industry? (b) Discuss the role of agriculture as a farm industry.

Second Paper

1. (a) Describe the formalities required to be observed by a merchant for getting imported goods released from the custody of the customs and the Port authorities. (b) Mention three Government agencies directly engaged in the import-export business in India.

2. (a) What do you understand by infra-structure of industry and trade? (b) What is an Advertising Agency? Give a brief account of its functions.

3. (a) Discuss the different ways in which commercial bank help business men. (b) Where of the following three, would you open a Saving Bank deposit account? Reserve Bank of India, Blood Bank, Indian Bank. (c) Describe the three methods of remittance through a Commercial bank from Calcutta to Delhi.

4. (a) State the chief features of Rail transport. (b) Discuss the contribution of railways to the expansion and development of trade and commerce of a country.

5. Describe the characteristics of a Limited Company in respect of its ownership and control, legal status, stability and risk.

Or, Discuss the role played by the Government with regard to taxation and revenue raising.

(b) State some of the reasons for business combination. (c) Explain the meaning of Horizontal combination and Vertical combination.

Or, Discuss the objective and functions of the National Small Industries Corporation.

7. (a) Explain how fire marine and accident insurance help industry and trade by spreading business risks. (b) Mention two basic principles of general insurances.

8. Discuss the nature and importance of office activities with reference to a large business enterprise.

9. Sri A. Basu, an unemployed engineer has approached Mr. N. Sengupta a reputed industrialist of Calcutta, for sponsorship of his application to the State Bank of India Calcutta for a loan of Rs. 25,000 for setting up a factory of electronic goods at Haldia.

Draft on behalf of Mr. N. Sengupta a letter of recommendation introducing Sri A. Basu to the Manager, State Bank of India, Calcutta indicating the prospect of the proposed venture.

10. Write notes on the following (a) Chairman of a meeting. (b) Insurable Interest. (c) Certificate of origin.

Higher Secondary Examination, 1982
First Paper

1. (a) Indicate the difference between national and international business.
(b) Give an example each of national and international business.

Or, (a) What is meant by "promotion of a business"? Mention the steps in promoting a business. (b) In what different capacities can a person, willing to do business, join it?

2. Define the terms "Industry" and "Commerce", and explain the main features of each.

3. (a) Write an explanatory note on the personal aspects of business.
(b) Analyse the concept of separate entity of business with objectives and principles of its own.

4. Mention any five of the different departmental activities in a business undertaking, and discuss the need for harmonization of those activities.

Or, (a) Mention five different social responsibilities of business.

(b) "Business is a constituent of the economy." Analyse the significance of the statement.

5. (a) Explain the term "Turnover of Capital" illustrating your answer with imaginary figures. (b) Explain the meaning of "Profit" in business, economics and taxation.

6. (a) Discuss the importance of market. (b) Describe the harmful effects of hoarding.

Or, Write short notes on : (a) Organised sector ; (b) Small-scale business ; (c) Mixed economy.

7. (a) Cite three examples of extractive industry. (b) "Co-ordination of purchase and sale is indispensable for the success of a business." Discuss.

8. (a) What is meant by manufacturer-wholesaler, retail-wholesaler and merchant-wholesaler? (b) State the economic and social justification of retail trade.

9. Describe the features of a Chain Store, and state its advantages.

10. (a) Fill in the blanks with appropriate words given in brackets :

(i) Net weight is determined by deducting —— in the case of raw materials and —— in the case of packaged goods. (Gross weight, Tare, Draft)

(ii) A — deals in his own name and a —— sells goods in the name of the principal or original seller. (Factor, Forwarding Agent, Broker)

(iii) Hindusthan Steel Ltd is a ——, but Damodar Valley Corporation is a —— (Statutory Corporation, Private sector company, Government Company)

(b) Rectify the following statements :

(i) Centralised selling is a feature of a Multiple Shop. (ii) The minimum number of members required to form a Consumer Co-operative Society is seven. (iii) The addition of the letters "C.I.F." to the price implies that the price does not include freight and insurance charges. (iv) The stock of raw materials, finished goods and work-in-progress are examples of fixed capital of a business. (v) In the Hire-Purchase System, a buyer acquires valid title to the goods as soon as the first instalment of price is paid by him.

Second Paper

1. (a) Why does the government regulate foreign trade? (b) Write short notes on (i) Letter of Credit, and (ii) Bill of Lading.

2. (a) Give an account of the services rendered by commercial banks as agents of their customers. (b) State the reasons why a Current Deposit Account is more adventageous to a business firm than a Fixed Deposit Account.

3. (a) "Insurance spreads business risk"—Explain this statement.
(b) Why is insurance called a contract of utmost good faith?

4. Discuss the advantages and disadvantages of road transport.

5. Explain briefly the objectives that can be achieved through advertisement.

6. (a) Examine whether the following statements are correct or incorrect:

(i) Registration of a partnership firm is compulsory. (ii) The liability of partners is individual. (iii) A member of a co-operative society can not hold more than one share in it. (iv) A company may or may not be registered. (v) A private company can not issue a prospectus.

(b) Mention five principal matters included in a partnership deed.

Or, Examine the role of the government as a promoter and regulator of business.

7. (a) Analyse the importance of filing and indexing. (b) Describe three principal methods of filing.

8. Describe the functions of the following departments in the office of a large business concern :—(a) Cash department. (b) Accounts department. (c) Personnel department.

9. On 10.1.1982 Jhikmik Stores of Burdwan placed an order for 250 pocket radios with Saral Company of Madras. On 22.1.1982 Saral Company sent a letter acknowledging receipt of the order and promising delivery of the goods by 1.2.1982. As the goods were not received, Jhikmik stores sent reminders on 12.2.1982 and 20.2.1982, but received no reply. In this situation, they decided on 1.3.1982 to cancel the order.

Draft the letter cancelling the above mentioned order.

10. (a) Discuss briefly the powers of a chairman in conducting a meeting.
(b) Write short notes on—(i) Agenda, (ii) Quorum.

Tripura H. S. Examination, 1982

BUSINESS ORGANISATION—First Paper

1. Answer *any two* of the following—

(a) Discuss the common basic features of business enterprises.

(b) Who is a promoter? Discuss briefly the functions of the promoter of a Public Ltd., Co.

(c) What is meant by 'Mixed Economy'? Discuss briefly the main features of mixed economy in India. (d) What is meant by speculation? Discuss its importance in business. (e) Discuss the features and advantages of a departmental store.

2. Answer *briefly any five* of the following :—

(a) Distinguish between hire purchase and instalment system. (b) Write a note on turnover of stock. (c) Discuss the significance of large-scale business in regard to employment and national product. (d) Discuss the economic justification of retail trade. (e) Explain the concept of separate entity of business undertakings. (f) Distinguish between profiteering and profit earning. (g) Discuss the technical aspect of a manufacturing industry. (h) Write a note on business environment in India. (i) Distinguish between Memorandum of Association and Articles of Association of a company.

3. Write short notes on *any four* of the following :—

(a) Wholesale Trade; (b) Chain Stores; (c) Bull; (d) Public Sector; (e) Del Credere Agent; (f) Equity Capital; (g) Prospectus of a Company.

Second Paper

1. Answer *any two* of the following :—

(a) Describe the procedure followed in importing goods from foreign countries to India. (b) Discuss the role of the Government as regulator of business. (c) Analyse the difference between cooperative form of business and a company. (d) Compare the relative advantages and disadvantages of different types of transport. (e) Discuss the duties and powers of the chairman of a meeting.

2. Answer *any five* of the following :—

(a) Distinguish between the characteristics of foreign trade and home trade. (b) Discuss the main clauses of a partnership deed. (c) Discuss how the Government institutions help private sector undertaking in the raising of capital. (d) "It pays to advertise." Discuss (e) Discuss the essential requisites of a valid meeting. (f) Discuss the importance of office activities in a business undertaking. (g) Distinguish between horizontal and vertical combinations (h) You have placed an order with a book-seller in Calcutta for supplying some books. Draft a letter cancelling the order on the ground of delay in supplying the books.

3. Write short notes on *any four* of the following :

(a) Minutes; (b) Indexing; (c) Government Company; (d) Demand Draft; (e) Lloyds; (f) National Small Industries Corporation.

W. B. Higher Secondary Examination, 1983

Business Organisation

FIRST PAPER

1. (a) "Business means any activity directed to create values for removing wants of man in society through receiving exchange."— On the basis of this statement, clearly bring out the meaning of business and point out any five of its basic common features.

[*Ans.* : What is Business—Basic Common Feature of Business Page 1 and 4, ch. I]

(b) Out of the following institutions specify those that are business undertakings—

(i) Sulekha Works Ltd., (ii) State Bank of India, (iii) Burdwan Medical College, Hospital, (iv) Indian Football Association, (v) Bharat Electronics Ltd., (vi) Calcutta Doordarshan, (vii) Damodar Valley Corporation, (viii) Planning Commission.

Or,

Discuss the reasons for which a person may be eager to enter into a business and continue in it.

[*Ans.* : Why dies a man enter into business—P. 52, ch. 2.]

2. Mention five different types of commercial activities and discuss their importance.

[*Ans.* : Commerce—P. 12, Ch. I]

3. Briefly describe the diverse activities that are carried on by a business firm. What is the significance of specialisation and harmonization of those activities.

[*Ans.* : Diverse Activities or operations of a Business undertaking—Specialisation and Harmonisation or Centegration of Diverse Activities—P. 32 and 33, Ch. I]

Or,

(a) Examine briefly the influence of environment on business.

(b) Describe any three important elements of business environment in India.

[*Ans.* : Business Environment in India—P. 41, Ch. I]

4. Distinguish between : (a) Fixed Capital and Working Capital ; (b) Gross Profit and Net Profit ; (c) Legitimate and Illegitimate Profit.

[*Ans.* : Fixed Capital and Working Capital P. 68, Ch. 3, Gross Profit, P. 81, Ch. 3, Net Profit P. 82, Ch. 3, Legitimate and Illegitimate Profit, P. 85, Ch. 3]

5. (a) "Purchase and Sale is a Critical area of business." Analyse the signifieance of the statement.

[*Ans.* : Purchase and Sale—Critical area of the Business—P. 89, Ch. 4]

(b) What is mean by Turnover of Stock? What do an increase and a decrease in turnover of stock [illegible]?

[*Ans.* Turnover of Stock. P. 101, Ch. 4]

Or,

Write short notes on :

(a) [illegible] Sector P. 131, Ch. 5.

(b) Joint Sector P. 138, Ch. 5.

(c) Foreign Collaboration P. 140, Ch. 5.

6. (a) Mention the essential aspects of any buying-selling transaction.

(b) Mention any three of the different ways of selecting the quality standard of different goods in business. Illustrate your answer with examples.

(c) A trader in Calcutta has purchased goods worth Rs. [illegible] from a Wholesaler in Delhi. Describe the various means and methods of remittance to pay for the goods.

[*Ans.* (a) Essential Aspects of Buying-Selling Transaction—P. 103, Ch. 4, (b) Quality Standards—P. [illegible], Ch. 4, (c) Modes of Remittance—P. 109, Ch. 4]

7. (a) Give two examples each of farming, mining and manufacturing industries.

(b) You desire to set up a factory. What enquiries would you make for the purpose in respect of raw materials, labour, power, and transport?

[*Ans.* (a) Classification of Business Activities—P. 11, Ch. 1. (b) Selection of Factory site—P. [illegible], Ch. [illegible]]

8. (a) Discuss briefly the usefulness of wholesale trade.

(b) Mention two types of intermediaries between buyer and seller.

[*Ans.* (a) Usefulness of Wholesale Trade P. 161, Ch. 6, (b) Different types of Middlemen or Business Intermediaries—P. 95, Ch. 4]

9. (a) What is a Departmental Store?

(b) [illegible]

[*Ans.* (a) Departmental Store—P. [illegible], Ch. 6, (b) P. 170, Ch. 6]

10. Justify the following statements:

(a) Industry and Commerce are auxiliary and complementary to each other.

(b) Trade Discount differs from Cash Discount.

(c) [illegible]

[*Ans.* (a) Interrelation of Trade, Industry, and Commerce P. 16, Ch. 1, (b) Payment of Price—P. 106, Ch. 4, (c) Retail Trade. P. 161, Ch. 6]

Business Organisation

SECOND PAPER

1. (a) Indicate the characteristics of foreign trade as compared to home trade.

(b) Mention any five of the different documents that are related to import or export of goods.

[*Ans.* (a) Distinction between Foreign trade and Home Trade —P. 196, Ch. I, (b) Forms and Documents in connection with Foreign Trade—P. 201, Ch. I].

2. Analyse the services of Commercial banks to business.

[*Ans.* Services of Bank for the development of Trade, Industry and Commerce—P. 207, Ch. II, Other Services of Banks to Business, P. [illegible] Ch. II]

3. (a) What is meant by a Fire Insurance Policy?

(b) Discuss the procedure of taking out a Fire Insurance Policy.

[*Ans.* (a) Fire Insurance—P. [illegible] Ch. II (b) Procedure for taking Fire Policy P. 229, Ch. II]

4. (a) Explain the importance of Salesmanship.

(b) "Advertisement boosts up Sales". Discuss.

[*Ans.* Salesmanship Meaning and Importance—P. [illegible] Ch. II, Importance of Advertisement P. [illegible] Ch. II]

5. Describe the features of Sole Proprietorship business.

[*Ans.* Sole Proprietorship Business—P. [illegible] Ch. III]

Or,

Give a brief account of the role of the Government in business as Administrator.

[*Ans.* State Participation in Industry, Trade and Commerce—As Administrator P. [illegible] Ch. V].

6. (a) What do you understand by a Private Limited Company?

(b) Examine whether the following statements are correct or incorrect:

(i) The duration of a partnership firm is [illegible] (ii) The [illegible] (iii) The Memorandum of Association [illegible] of a company (iv) The [illegible] number of members of a [illegible] (v) The liability of the members of a co-operative society is unlimited.

[*Ans.* (a) Classification of Companies—P. [illegible] Ch. III]

Or

Enumerate the functions of (a) The Department of Commercial Intelligence and Statistics, Govt. of India and (b) the Directorate of Industries, Govt. of W. B.

[*Ans.* (a) P. [illegible] Ch. V (b) P. [illegible] Ch. V]

7. What is meant by an office? Discuss the importance of the office activities to a business undertaking.

[Ans. Significance of office activities in a Business Undertaking — P. [illegible], Ch. VI]

8. Discuss the procedure of handling incoming correspondence in the office of a large industrial firm.

[Ans. Incoming correspondence or Mail — P. [illegible], Ch. VI]

9. Basu & Co., Calcutta, are the [illegible] of two types of [illegible] [illegible] 'Rajasthan' and [illegible] [illegible] of [illegible] Rs. [illegible] and Rs. [illegible] respectively. They have received from [illegible] [illegible] Limited, Kanpur a letter of enquiry dated [illegible] and [illegible] terms and conditions of sale. Draft on behalf of Basu & Co., a reply to the [illegible] [illegible] letter of enquiry.

[Ans. Write on the basis of letter in P. 410, Ch. VII]

10. Write short notes on the following:

(a) [illegible] — P. [illegible], Ch. VIII

(b) [illegible] — P. [illegible], Ch. VIII

(c) [illegible] — P. [illegible], Ch. VIII

W. B. Higher Secondary Examination 1984

Business Organisation

FIRST PAPER

1. (a) What do you mean by local, national and international business? (b) Distinguish between national and international business.

Ans. [Ch. 1 Page No. 7]

2. Describe the functions of [illegible] promoter [illegible] capital formation and [illegible] of capital.

Ans. [Ch. 2 Page No. 57, 58, 60]

3. (a) Define industry. (b) What do you mean by [illegible] and service industry? Write your answer with examples. (c) Are the terms Commerce and Trade synonymous? Discuss.

Ans. [Ch. 1 Page No. 11, 17]

4. Discuss what the nature of social responsibilities of business should be towards Consumer, Workers and Employees and the [illegible].

Ans. [Ch. 1. Page No. 43]

5. Enumerate the [illegible]

Ans. [Ch. 1. Page No. 26]

6. (a) What is meant by Capital of a business? [illegible] depend upon [illegible] the statement.

Ans. [Ch. 3. Page No. 64, 72]

7. (a) What is Market? [illegible] and consumers.

Ans. [Ch. 4, Page No. 92, 93]

8. Write short notes on [illegible] (c) Public sector.

Ans. [illegible]

9. (a) What are the [illegible] (b) [illegible] ance in manufacturing industry?

Ans. [Ch. 5, Page No. (a) 145 (b) 148]

10. [illegible]

Ans. [Ch. 4, Page No. 97]

11. (a) Mention [illegible] wholesale trade and retail trade. [illegible] Specialised retailers [illegible]

Ans. [Ch. 6 Page No. [illegible]]

12. Discuss about the features, locality and premises of Multiple shops.
Ans. [Ch. 6. Page No. 174]

13. Examine the validity of the following statements.
(a) Social service is the sole objective of business. (b) A business undertaking has its own separate entity. (c) The activities of hoaders ensure price stabilization and balanced distribution of goods.
Ans. [Ch. 1 Page No. (a) 23 (b) 24 (c) Ch. 3 Page 85]

PAPER II

1. (a) Describe the general procedure of clearing imported goods from the custoday of the customs and the Port authorities. (b) Mention any three of the documents that are required to be submitted to the customs authorities for the purpose of clearing imported goods.

Ans. [Ch. 1. Page 199]

2. (a) Describe the services of commercial banks as agents of customers (b) Indicate the points of difference between Current Deposit Account and Savings Deposit Account with a Commercial bank.
Ans. [Ch. 2. Page (a) 209 (b) 219]

3. (a) Discuss the need of insurance to business enterprises

(b) Fire insurance is a contract of indemnity. Elucidate the significance of this statement.

Ans. [Ch. 2. Page (a) 223 (b) 227]

4. (a) What are the different modes of transport ? (b) Discuss the advantages and disadvantages of railway transport.
Ans. [Ch. 2. Page (a) 247 (b) 250]

5. (a) What is meant by advertising ? (b) Do you think that advertisement is a wasteful expenditure ? Give reasons for your answer.

Ans. [Ch. 2. Page (a) 262 (b) 264]

6. (a) What is a Partnership business ? (b) Explain the importance of Partnership Deed to the partners. (c) Analyse the significance of the following statements :—

Ans. [Ch. 3. Page (a) 288 (b) 291]
(i) The liability of the members of a limited company is limited.
(ii) A company is regarded as having a pertetual existence
Ans. [Ch. 3. Page 299]

7. Write short notes on :—
(a) Planning Commission of India. (b) Public Sector B... (c) Office of the clief controller of Imports and Exports Government of I...

Ans. [Ch. 5. Page 365, 368, 369]

8. Describe the activities of the following departments in the office of a large business undertaking. (a) Purchase Department (b) Sales Department, (c) Filing Department.
Ans. [Ch. 6. Page 375, 376]

9. Discuss briefly the importance of the following appliances used in the office of a business firm : (a) Typewriter, (b) Telephone, (c) Postal Franking Machine.

Ans. [Ch. 6. Page 377, 379, 380]

10. Menorama Silk House, Midnapore has decided to buy silk cloth worth Rs. 10,000 from Jayram Brothers, Mysore.

In their letter of 31. 3. 84 Jayram Brothers informed Menorama Silk House :

(a) that 50% of the value of the products is payable in advance by means of a bank draft along with the order, and the balance 50% later.

(b) that the goods will be despatched by railway within 15 days from the date of receipt of the order.

On the basis of the above information, draft on behalf of the firm in Midnapore, a letter placing the order on the firm in Mysore.

11. (a) What is an Agenda and for what purpose is it prepared ? (b) What is a Quoram ? Explain the importance of Quorum in holding in valid meeting. (c) What do you mean by the Minutes of a meeting ? When and why are these prepared ?

Ans. [Ch. 8. Page (a) 425 (b) 428 (c) 428]

Tripura H. S. Examination, 1984

BUSINESS ORGANISATION

FIRST PAPER

1. Answer *any two* of the following :—

(a) Discuss the common basic features of business enterprises.

(b) Discuss the steps required to be taken for the promotion of a Public Limited Company.

(c) What is meant by a departmental store ? Discuss briefly its advantages and disadvantages.

(d) What is meant by a produce exchange ? Discuss its importance.

(e) Discuss the social and economic significance of large-scale business.

2. Answer *briefly any five* of the following :—

(a) What is meant by mixed economy ? What are its features ?

(b) Write a note on turnover of stock.

(c) Distinguish between hire-purchase and instalment system.

(d) Describe the functions of capital.

(e) Explain with illustrations local business, national business and international business.

(f) Discuss the personal aspect of business.

(g) Enumerate the functions of wholesale trade.

(h) Discuss the main principles of the organisation of business undertakings. (i) Describe the essential aspects of a buying-selling transaction.

3. Write short notes on *any four* of the following :—

(a) Packing and packaging ; (b) Chain store ; (c) Cooperative business ; (d) Bill of Exchange ; (e) Speculation ; (f) Working capital ; (g) Profiteering.

SECOND PAPER

1. Answer *any two* of the following :—

(a) Describe the procedure followed in exporting goods to foreign countries.

(b) What is meant by advertisement ? Discuss its importance.

(c) Compare the relative advantages and disadvantages of railway and roadway transport systems.

(d) Discuss the duties and powers of the chairman of a meeting.

(e) Define 'Indexing'. Discuss the advantages and disadvantages of any two indexing methods which are used in the office of a business undertaking.

2. Answer briefly *any five* of the following :—

(a) Describe the procedure for handling incoming mail in an office.

(b) What are the principal clauses of a Marine Insurance Policy ? Discuss briefly any two of the clauses.

(c) Discuss the role of the Government as regulator of business.

(d) What are the functions of the National Small Industries Corporation ?

(e) Discuss the advantages and disadvantages of sole proprietorship business.

(f) What is a Government Company ? Discuss its main features.

(g) What is a Current Deposit Account ? Distinguish between a Current Deposit Account and a Fixed Deposit Account.

(h) Discuss the essential requisites of a valid meeting.

(i) A trader of Agartala has received an enquiry from a trader of Bombay about the financal standing of a firm of Agartala. Draft a favourable reply mentioning that your firm will not accept any responsibility for opinion expressed.

3. Write short notes on *any four* of the following :—

(a) Lloyds ; (b) Agenda ; (c) Partnership Deed ; (d) Planning Commission ; (e) Franking Machine ; (f) Demand Draft.

West Bengal Higher Secondary Examination, 1985

Business Organisation

FIRST PAPER

1. Discuss the basic common features of a business firm.

[Ans. Ch. I, Page 4]

Or, Besides earning a living, what are the other reasons that might motivate a person to join a business as its owner? [Ans. Ch. 2, Page 53]

2. (a) What do you mean by commercial activities?

(b) Is there any relationship between marketing of a cosmetic product and industry and commerce? Give reasons for your answer

[Ans. (a) Ch. I, P. 12. (b) Ch. I, P. 17— Interrelationship of trade, industry and commerce makes business a total system]

3. (a) What are the impersonal aspects of a business?

(b) Is it desirable to carry on a business ignoring its impersonal aspects?

[Ans. Ch. I, Page 23]

4. Mention the diverse activities or operations of business undertaking and explain the importance of specialisation and harmonization of those activities. [Ans. Ch. I, Page 29 and Page 33]

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Business Organisation

SECOND PAPER

Answer any *Six* questions :—

1. (a) Explain the significance of government regulation of foreign trade.

(b) Mention any four of the different documents used in export-import trade. [Ans. Second Paper Ch. I, P. 191, 201]

2. (a) Describe the primary functions of commercial banks in the service of business firms.

(b) Mention any three of the different types of deposit accounts that can be opened with a commercial bank. [Ans. Ch. II, P. 207, 216]

3. (a) "Insurance spreads business risk"—explain this statement.

(b) What do you understand by the principle of subrogation in relation to the contract of general insurance? [Ans. Ch. II, P. 223]

4. Describe the comparative suitability of roadways and railways for catering to the transportation needs of business. [Ans. Ch. II, P. 254]

5. (a) What are the principle objectives of advertisement?

(b) What is the significance of the term economics of advertisement ?

(c) What is a medium of advertisement. [Ans. Ch. II P. 262, 264, 266]

6. Describe the characteristics of partnership business with reference to its (a) ownership and control, (b) legal status and (c) risk.

[Ans. Ch. III, P. 289]

Or, Examine the role of the government as (a) promoter and (b) regulator of business. [Ans. Ch. V, P. 360]

7. (a) What subject matters are recorded in the Memorandum of Association of a company?

(b) Why is a company called an artificial person having a separate entity?

(c) What are the different sources of capital of a company?

[Ans. Ch. III (a) P. 303 (b) 299 (c) 1st Paper—Ch. 3, P. 76]

8. (a) Analyse the importance of filing and indexing.

(b) What are the principal methods of indexing?

[Ans. Ch. VI, P. 388, 391]

9. On 25. 3. 85 Radiant Engineering Co., Durgapur placed an order with Hindusthan Supply Agency, Calcutta for the supply of 5 typewriting machines valued at Rs. 6000/- each. They also sent a bank draft of Rs. 7500 along with their order.

In accordance with the above mentioned order, Hindusthan Supply Agency have today despatched the goods by rail.

On the basis of the above information, draft, on behalf of the firm in Calcutta, a suitable letter of execution of order to the firm in Durgapur.

[Ans. Ch. VII, P. 413]

10. (a) What is a valid meeting? (b) What are the requisites of a valid notice? (c) What do you mean by Agenda Notes? What is their usefulness? [Ans. Ch. VIII, P. 424, 425, 426]